KOU-KAMMA LOCAL MUNICIPALITY

EC109

ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED
30 JUNE 2020

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GENERAL INFORMATION

MAYOR / SPEAKER
Cllr. Vuso M.S.

OTHER MEMBERS OF THE COUNCIL
Cllr. Goliath G.G.M.
Cllr. Herman F.E.
Cllr. Jansen J.
Cllr. Krige J.
Cllr. Plaatjies J.
Cllr. Pullen H.P.
Cllr. Reeders C.
Cllr. Smith K.
Cllr. Strydom F.
Cllr. Yake F.J.

ADDRESS OF THE KOU-KAMMA LOCAL MUNICIPALITY

5 Keet Street	Private Bag X11
Kareedouw	Kareedouw
3170	3170

GRADING OF THE LOCAL AUTHORITY
Grade 1

EXTERNAL AUDITORS
Office of the Auditor General (East London)
69 Frere Road
Vincent
East London
5200

PRIMARY BANKER
ABSA Bank Ltd

ACCOUNTING OFFICER
Kate P.M.

Municipal Manager
Kate P.M.

Chief Financial Officer
Venter N.A.

APPROVAL OF ANNUAL FINANCIAL STATEMENTS

I am responsible for the preparation of these Annual Financial Statements, which are set out on pages 4 to 62, in terms of Section 126(1) of the Municipal Finance Management Act (Act No. 56 of 2003) and which I have signed on behalf of the municipality.

ACCOUNTING OFFICER'S RESPONSIBILITIES AND APPROVAL

The accounting officer is required by the Municipal Finance Management Act (Act No 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express and independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgments and estimates.

The accounting officer is of the opinion, based on the information and explanations given by management that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2021 and in the light of this review and the current financial position, as asssed with limited resources, the municipality will continue to operate as a going concern for the foreseeable future.

Although the accounting officer is primarily responsible for the financial affairs of the municipality, he is supported by the municipality's external auditors.

The external auditors are responsible for auditing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 6 onwards

The annual financial statements set out on pages 5 to 62, which have been prepared on the going concern basis, were approved by the accounting officer on 31 October 2020 and were signed by:

Kate P.M.
Municipal Manager

MEMBERS OF THE COUNCIL

MAYOR / SPEAKER

Cllr. Vuso M.S.

COUNCILLORS

Cllr. Goliath G.G.M.
Cllr. Herman F.E.
Cllr. Jansen J.
Cllr. Krige J.
Cllr. Plaatjies J.
Cllr. Pullen H.P.
Cllr. Reeders C.
Cllr. Smith K.
Cllr. Strydom F.
Cllr. Yake F.J.

CERTIFICATION OF REMUNERATION OF COUNCILLORS

I certify that the remuneration of Councillors and in-kind benefits are within the upper limits of the framework envisaged in Section 219 of the Constitution of the Republic of South Africa, 1996, read with the Remuneration of Public Office Bearers Act No.20 of 1998 and the Minister of Provincial and Local Government's determination in accordance with this Act.

KOU-KAMMA MUNICIPALITY

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2020

	Note	Actual 2020 R	Restated 2019 R
ASSETS			
Current Assets		**82 971 267**	**67 466 740**
Inventories	2	355 979	314 767
Receivables from Exchange Transactions	3	20 444 501	12 092 524
Receivables from Non-exchange Transactions	4	30 651 880	27 864 080
VAT Receivable	5	21 574 261	5 207 998
Cash and Cash Equivalents	6	9 916 850	21 937 623
Operating Lease Receivables	7	27 796	49 748
Non-Current Assets		**347 637 750**	**336 883 438**
Property, Plant and Equipment	8	322 575 029	311 760 979
Intangible Assets	9	43 106	95 942
Investment Property	10	25 019 616	25 026 518
Total Assets		**430 609 017**	**404 350 178**
LIABILITIES			
Current Liabilities		**44 545 987**	**51 406 199**
Consumer Deposits	11	104 975	104 588
Current Portion of Long-term Liabilities	15	1 729 868	2 061 412
Provisions	12	2 142 855	2 133 273
Payables from Exchange Transactions	13	32 037 423	25 774 314
Unspent Conditional Grants and Receipts	14	8 530 866	21 332 611
Non-Current Liabilities		**11 117 347**	**11 189 208**
Employee Benefit Liabilities	15	8 057 000	8 474 162
Provisions	16	3 060 347	2 715 046
Total Liabilities		**55 663 334**	**62 595 407**
Net Assets		**374 945 683**	**341 754 771**
NET ASSETS		**374 945 683**	**341 754 771**
Accumulated Surplus	17	374 945 683	341 754 771
Total Net Assets		**374 945 683**	**341 754 771**

KOU-KAMMA MUNICIPALITY
STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2020

	Note	Actual 2020 R	Restated 2019 R
REVENUE			
Revenue from Non-exchange Transactions			
Property Rates	18	16 008 510	14 626 857
Fines	19	19 407 898	20 158 659
Income for Agency Services	20	2 982 849	1 722 538
Government Grants and Subsidies Received	21	95 321 622	70 029 922
Other Revenue	25	2 298 441	2 238 230
Revenue from Exchange Transactions			
Service Charges	22	28 361 788	24 381 578
Rental of Facilities and Equipment	23	1 054 784	306 742
Interest Earned - External Investments	24	805 733	591 875
Interest Earned - Outstanding Debtors	24	16 933 380	9 942 277
Other Revenue	25	1 029 812	437 067
Gain on disposal of Property, Plant and Equipment		11 083	-
Total Revenue		**184 215 899**	**144 435 745**
EXPENDITURE			
Employee Related Costs	26	(53 856 131)	(48 645 883)
Remuneration of Councillors	27	(3 843 067)	(3 720 924)
Depreciation and Amortisation	28	(20 861 721)	(20 143 161)
Bad debts		(36 093 033)	(41 753 433)
Finance Costs	29	(1 363 975)	(718 390)
Bulk Purchases	30	(4 335 227)	(3 624 606)
Contracted Services	31	(7 964 486)	(10 044 059)
General Expenses	32	(22 277 348)	(16 889 829)
Impairment losses	8	(409 559)	(927 116)
Loss on Disposal of Property, Plant and Equipment	8	(20 440)	(7 292)
Total Expenditure		**(151 024 988)**	**(146 474 692)**
SURPLUS/ (DEFICIT) FOR THE YEAR		**33 190 911**	**(2 038 947)**

KOU-KAMMA MUNICIPALITY
STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2020

Description	Note	Accumulated Surplus / (Deficit)	Total
		R	R
2019			
Restated balance at 1 July 2018		**343 793 718**	**343 793 718**
Surplus for the year		(2 038 947)	(2 038 947)
Balance at 30 June 2019		**341 754 771**	**341 754 771**
2020			
Restated balance at 1 July 2019		**341 754 771**	**341 754 771**
Deficit for the year		33 190 911	33 190 911
Balance at 30 June 2020		**374 945 683**	**374 945 683**

KOU-KAMMA MUNICIPALITY
CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2020

	Note	Actual 2019 R	2018 R
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts			
Sale of goods and services		3 419 407	43 751 660
Government Grant and Subsidies	**21**	88 451 331	69 949 138
Interest Received	**24**	805 733	591 875
Other Receipts		5 067 444	6 045 083
Payments			
Employee Related Costs	**26**	(53 438 969)	(49 631 352)
Remuneration of Councillors	**27**	(3 843 067)	(3 720 924)
Interest Paid	**29**	(377 832)	(718 390)
Suppliers Paid		(28 313 953)	(28 276 530)
NET CASH FLOWS FROM OPERATING ACTIVITIES	**33**	**11 770 094**	**37 990 561**
CASH FLOWS UTILISED FROM INVESTING ACTIVITIES			
Purchase of Property, Plant and Equipment	**7**	(33 707 717)	(17 537 662)
NET CASH FLOWS FROM INVESTING ACTIVITIES		**(33 707 717)**	**(17 537 662)**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENT	**6**	**(21 937 622)**	**20 452 899**
Cash and Cash Equivalents at Beginning of Period		21 937 623	1 484 723
Cash and Cash Equivalents at End of Period		9 916 230	21 937 623

KOU-KAMMA MUNICIPALITY

APPROPRIATION STATEMENT FOR THE YEAR ENDED 30 JUNE 2020

STATEMENT OF FINANCIAL POSITION: COMPARISION OF BUDGET VS ACTUAL AMOUNTS

Description	Original Budget	Budget Adjustments (I.e. s28 & s31 Of The MFMA)	Final Budget	Actual Outcome	Variance	Variance percentage	Actual Income As % Of Final Budget	Actual Outcome As % Of Original Budget	Notes
ASSETS									
Current Assets	**64 350 269**	**21 465 818**	**85 816 087**	**82 971 267**	**-2 844 820**				
Inventories		-	-	355 979	355 979				
Receivables from Exchange Transactions	31 687 065	(608)	31 686 457	20 444 501	(11 241 956)	-35%	65%	65%	N1
Receivables from Non-exchange Transactions	30 175 577	2 500 608	32 676 185	30 651 880	(2 024 305)	-6%	94%	102%	N2
VAT Receivable	-	-		21 574 261	21 574 261				
Cash and Cash Equivalents	2 160 948	18 965 818	21 126 766	9 916 850	(11 209 916)	-53%			N3
Operating Lease Receivables	326 679	-	326 679	27 796	(298 883)	-91%	9%	9%	
Non-Current Assets	**394 584 103**	**(55 439 526)**	**339 144 577**	**347 637 750**	**8 493 173**				
Property, Plant and Equipment	367 011 549	(52 976 034)	314 035 515	322 575 029	8 539 514	3%	103%	88%	
Intangible Assets	82 544	-	82 544	43 106	(39 438)	-48%	52%	52%	N4
Investment Property	27 490 010	(2 463 492)	25 026 518	25 019 616	(6 902)	0%	100%	91%	
Total Assets	**458 934 372**	**(33 973 708)**	**424 960 664**	**430 609 017**	**5 648 353**				
LIABILITIES									
Current Liabilities	**26 929 666**	**-**	**26 929 666**	**44 545 987**	**17 616 321**				
Consumer Deposits	104 700	-	104 700	104 975	275	0%	100%	100%	
Current Portion of Long-term Liabilities		-		1 729 868	1 729 868				
Provisions	4 256 966	-	4 256 966	2 142 855	(2 114 111)	-50%	50%	50%	N5
Payables from Exchange Transactions	22 568 000	-	22 568 000	32 037 423	9 469 423	42%	1.419595119	142%	N6
Unspent Conditional Grants and Receipts		-	-	8 530 866	8 530 866				
Non-Current Liabilities	**5 101 485**	**-**	**5 101 485**	**11 117 347**					
Employee Benefit Liabilities	3 826 114	-	3 826 114	8 057 000	4 230 886	111%	2.105792072	211%	N7
Provisions	1 275 371	-	1 275 371	3 060 347	1 784 976	140%			N8
Total Liabilities	**32 031 151**	**-**	**32 031 151**	**55 663 334**					
Net Assets	**426 903 221**	**(33 973 708)**	**392 929 513**	**374 945 683**					
NET ASSETS	**426 903 221**	**(33 973 708)**	**392 929 513**	**374 945 683**					
Accumulated Surplus	426 903 221	(33 973 708)	392 929 513	374 945 683	(17 983 830)	-5%	95%	88%	
Total Net Assets	**426 903 221**	**(33 973 708)**	**392 929 513**	**374 945 683**					

Notes and Legends

N1 The payment rate of debtors decreased, resulting in higher than expected bad bebt provision
N2 The payment rate of debtors decreased, resulting in higher than expected bad bebt provision
N3 This relates to the unspent grants at year-end.
N4 Budget error, amortisation not taken into account
N5 This relates to the write off of performance bonusses in the current year
N6 Due to cash flow difficulties a number of creditors, could not be paid be year-end
N7 This relates to underbudgeting for the increase in the PEMA liability
N8 Budget error, increase in landfill site obligation underestimated

KOU-KAMMA MUNICIPALITY

APPROPRIATION STATEMENT FOR THE YEAR ENDED 30 JUNE 2020

STATEMENT OF FINANCIAL PERFORMANCE: COMPARISION OF BUDGET VS ACTUAL AMOUNTS

Description	Original Budget	Budget Adjustments (i.e. s28 & s31 Of The MFMA)	Final Budget	Actual Income & Expenditure	Variance	Variance percentage	Actual Income As % Of Final Budget	Actual Outcome As % Of Original Budget	Notes
Financial Performance									
Property Rates	18 948 191	(4 816 224)	14 131 967	16 008 510	1 876 543	13%	113%	84%	N1
Service Charges	27 267 734	1 058 185	28 325 919	28 361 788	35 869	0%	100%	104%	
Rental of Facilities and Equipment	882 255	773 262	1 655 517	1 054 784	(600 733)	-36%	64%	120%	N2
Investment Revenue	317 315	612 637	929 953	805 733	(124 220)	-13%	87%	254%	N3
Interest earned:outstanding debtors	14 316 934	4 319 025	18 635 959	16 933 380	(1 702 579)	-9%	91%	118%	
Fines	15 025 000	5 425 691	20 450 691	19 407 898	(1 042 794)	-5%	95%	129%	N4
Income for the agency fees	1 994 585	1 611 657	3 606 242	2 982 849	(623 393)	-17%	83%	150%	N5
Government grants and subsidies	86 235 000	16 619 995	104 932 742	95 321 622	(9 611 120)	-9%	91%	111%	
Other Own Revenue	13 594 543	(2 382 420)	11 212 123	3 328 253	(7 883 870)	-70%	30%	24%	N6
Gain on disposal of assets				11 083					
Total Revenue (Excluding Capital Transfers & Contributions)	**178 581 557**	**23 221 808**	**203 881 113**	**184 215 899**	**(19 665 214)**	**-10%**	**90%**	**103%**	
Employee Costs	(59 650 017)	3 276 594	(56 373 423)	(53 856 131)	2 517 292	-4%	96%	90%	N7
Remuneration Of Councillors	(3 944 915)	-	(3 944 915)	(3 843 067)	101 848	-3%	97%	97%	
Debt Impairment	(37 349 158)	(7 277 716)	(44 626 874)	(36 093 033)	8 533 841	-19%	81%	97%	N8
Depreciation & Asset Impairment	(27 457 523)	-	(27 457 523)	(20 861 721)	6 595 802	-24%	76%	76%	N9
Finance Charges	(1 250 000)	926 653	(323 348)	(1 363 975)	(1 040 627)	322%	422%	109%	N10
Bulk Purchases	(4 761 718)	(1 588 430)	(6 350 148)	(4 335 227)	2 014 921	-32%	68%	91%	N11
Other Materials	(7 138 578)	(487 127)	(7 625 705)	(4 442 320)	3 183 385	-42%	58%	62%	N12
Contracted Services	(11 202 092)	(1 473 952)	(12 676 045)	(7 964 486)	4 711 559	-37%	63%	71%	N13
Other Expenditures	(23 816 879)	(1 790 417)	(25 607 296)	(17 835 028)	7 772 268	-30%	70%	75%	N14
Impairment loss	-	-	-	(409 559)	(409 559)				
Loss on disposal of asset		-	-	(20 440)	(20 440)				
Total Expenditure	***(176 570 880)***	***(8 414 396)***	***(184 985 276)***	***(151 024 988)***	***33 960 288***	***-18%***	***82%***	***86%***	
Surplus/(Deficit)	**2 010 677**	**14 807 412**	**18 895 837**	**33 190 911**	**(53 625 503)**	**-284%**	**176%**	**1651%**	
Capital Expenditure	29 468 200	18 015 804	47 484 004	32 920 477	(14 563 527)	-31%	69%	112%	

Notes and Legends:

N1 The increase in property rates relates to the implementation of the supplementary valuation roll
N2 As result of the closure of the community halls for a period 3 months during the financial year, this resulted in a decrease in revenue
N3 The municipality has less funds available on short term investments than anticipated
N4 The accrual for fine revenue has not yet been accounted for
N5 As result of the closure of the DTLC for a period 3 months during the financial year, this resulted in a decrease in revenue
N6 The municipality has budgeted other income as part of the revenue enhancement plan, but due to staff shortages in this section, the actual results were lower than
N7 As result of the National Lockdown and financial impact, a number of budgeted positions was not filled at year-end
N8 The impairment of fines issued not yet collected has not yet been accounted for
N9 As a result of not all projects being completed as expected, depreciation was lower than expected.
N10 Due to the increase in creditors, interest incurred during the financial year was higher than anticipated
N11 The result of the decrease is due to the changing of bulk tariffs through Eskom
N12 Due to cost containment measures, the municipality curbs non essentail expenditures
N13 Due to cost containment measures, the municipality curbs non essentail expenditures
N14 Due to cost containment measures, the municipality curbs non essentail expenditures

1. BASIS OF PRESENTATION

The financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practices (GRAP) listed below including any interpretations, guidelines and directives issued by the Accounting Standards Board and the Municipal Finance Management Act, 2003 (Act No. 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies are disclosed below.

These accounting policies are consistent with the previous period, except for the changes set out in note 1.6 standards and interpretations effective and adopted in the current year.

1. 1 CHANGES IN ACCOUNTING POLICY AND COMPARABILITY

Accounting Policies have been consistently applied, except where otherwise indicated below.

The details of any resulting changes in accounting policy and comparative restatements are set out below.

The municipality changes an accounting policy only if the following instances:
(a) is required by a Standard of GRAP; or
(b) results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the municipality's financial position, financial performance or cash flow.

1. 2 CRITICAL JUDGEMENTS, ESTIMATIONS AND ASSUMPTIONS

In the application of the municipality's accounting policies, which are described below, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

These estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgements, apart from those involving estimations, that the management have made in the process of applying the municipality's Accounting Policies and that have the most significant effect on the amounts recognised in Annual Financial Statements:

1. 2. 1 Revenue Recognition

Accounting Policy on *Revenue from Exchange Transactions* and Accounting Policy on *Revenue from Non-exchange Transactions* describes the conditions under which revenue will be recorded by the management of the municipality.

In making their judgement, management considered the detailed criteria for the recognition of revenue as set out in GRAP 9 and GRAP 23. In particular, whether the municipality, when goods are sold, had transferred to the buyer the significant risks and rewards of ownership of the goods and when services are rendered, whether the service has been rendered. Also of importance is the estimation process involved in initially measuring revenue at the fair value thereof. The management of the municipality is satisfied that recognition of the revenue in the current year is appropriate. At the time of initial recognition it is inappropriate to assume that the collectability of amounts owing by individual recipients of goods or services will not occur, because the municipality has an obligation to collect all revenue.

1. 2. 2 Financial assets and liabilities

The classification of financial assets and liabilities, into categories, is based on judgement by management. Accounting Policy on *Financial Assets Classification* and Accounting Policy on *Financial Liabilities Classification* describe the factors and criteria considered by the management of the municipality in the classification of financial assets and liabilities.

In making the above-mentioned judgement, management considered the definition and recognition criteria for the classification of financial instruments as set out in GRAP 104: *Financial Instruments*.

1. 2. 3 Impairment of Financial Assets

Accounting Policy on *Impairment of Financial Assets* describes the process followed to determine the value by which financial assets should be impaired. In making the estimation of the impairment, the management of the municipality considered the detailed criteria of impairment of financial assets as set out in GRAP 104: *Financial Instruments*, and used its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of the reporting period. The management of the municipality is satisfied that the impairment of financial assets recorded during the year is appropriate.

The calculation in respect of the impairment of debtors is based on an assessment of the extent to which debtors have defaulted on payments already due, and an assessment of their ability to make payments based on their creditworthiness.

This was performed per service-identifiable categories across all classes of debtors.

1. BASIS OF PRESENTATION (Continued)

1. 2 CRITICAL JUDGEMENTS, ESTIMATIONS AND ASSUMPTIONS (Continued)

1. 2. 4 Useful lives of Property, Plant and Equipment, Intangible assets and Investment property

The municipality depreciates/amortises its property, plant and equipment, investment property and intangible assets over the estimated useful lives of the assets, taking into account the residual values of the assets at the end of their useful lives, which is determined when the assets are available for use. The useful lives of assets are based on management's estimation. Management considered the impact of technology, availability of capital funding, service requirements and required return on assets in order to determine the optimum useful life expectation, where appropriate. The estimation of residual values of assets is based on management's judgement as to whether the assets will be sold or used to the end of their useful lives, and in what condition they will be at that time.

1. 2. 5 Impairment: Write down of Property, Plant and Equipment and Inventories

Accounting Policy on *PPE - Impairment of assets* and Accounting Policy on *Intangible assets - Subsequent Measurement, Amortisation and Impairment* and Accounting Policy on *Inventory - Subsequent measurement* describes the conditions under which non-financial assets are tested for potential impairment losses by the management of the municipality. Significant estimates and judgements are made relating to PPE impairment testing, Intangible assets impairment testing, write down of Inventories to the lowest of Cost and Net Realisable Values (NRV) and whether assets should be written down to current replacement cost.

In making the above-mentioned estimates and judgement, management considered the subsequent measurement criteria and indicators of potential impairment losses as set out in GRAP 21: Impairment of Non-Cash generating Assets and GRAP 26: Impairment of Cash generating Assets. In particular, the calculation of the recoverable service amount for PPE and intangible assets and the NRV for inventories involves significant judgement by management. During the year no impairments were made to PPE, intangible assets or inventory.

1. 2. 6 Water inventory

The estimation of the water stock in the reservoirs is based on the measurement of water after the depth of water in the reservoirs have been determined, which is then converted into volumes based on the total capacity of the reservoir.

1. 2. 7 Defined Benefit Plan Liabilities

The municipality obtains actuarial valuations of its defined benefit plan liabilities. The defined benefit obligations of the municipality that were identified are Post-retirement Health Benefit Obligations and Long-service Awards. The estimated liabilities are recorded in accordance with the requirements of GRAP 25. Details of the liabilities and the key assumptions made by the actuaries in estimating the liabilities are provided in the notes to the Annual Financial Statements.

1. 2. 8 Provisions and contingent liabilities

The Municipality has an obligation to rehabilitate its landfill sites in terms of its license stipulations. Provision is made for this obligation based on the net present value of cost. Additional disclosure of these estimates of provisions are included in Note 16 Provisions. A valuation report is prepared annually by the Province of the Eastern Cape Local Government and Traditional Affairs Department. This report is an effect to ensure that Koukamma Local Municipality complies with the Waste Act and the Generally Recognised Accounting Practice (GRAP) 17 and 19 requirements and standards. GRAP 17 requires the cost of rehabilitation of landfill sites to be capitalised as property, plant and equipment and within GRAP 17 the interest of this report is in the depreciation rate of the sites. GRAP 19 requires for costs of rehabilitation of landfill sites to be provided for.

1. 2. 9 Budget information

Deviations between budget and actual amounts are regarded as material differences when a 10% deviation exists. All material differences are explained in the notes to the annual financial statements.

1. 3 PRESENTATION CURRENCY

The Annual Financial Statements are presented in South African Rand, rounded off to the nearest Rand, which is the municipality's functional currency.

1. 4 GOING CONCERN ASSUMPTION

The Annual Financial Statements have been prepared on the assumption that the municipality will continue to operate as a going concern for at least the next 12 months.

1. 5 OFFSETTING

Assets, liabilities, revenues and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

1. BASIS OF PRESENTATION (Continued)

New Standards and Interpretations

1. 6 Standards and interpretations effective and adopted in the current year

GRAP 20 : Related Party Disclosures

The objective of this standard is to ensure that a reporting entity's annual financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:
- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual annual financial statements.

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:
- A person or a close member of that person's family is related to the reporting entity if that person:
  * has control or joint control over the reporting entity;
  * has significant influence over the reporting entity;
  * is a member of the management of the entity or its controlling entity.

- An entity is related to the reporting entity if any of the following conditions apply:
  * the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
  * one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
  * both entities are joint ventures of the same third party;
  * one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  * the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
  * the entity is controlled or jointly controlled by a person identified in (a); and
  * a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard furthermore states that related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

The standard elaborates on the definitions and identification of:
- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence

The standard sets out the requirements, inter alia, for the disclosure of:
- Control;
- Related party transactions; and
- Remuneration of management

The entity has adopted the standard for the first time in the 2019/2020 annual financial statements.

1. BASIS OF PRESENTATION (Continued)

GRAP 32 : Service Concession Arrangements: Grantor

The objective of this Standard is: to prescribe the accounting for service concession arrangements by the grantor, a public sector entity.

It furthermore covers: Definitions, recognition and measurement of a service concession asset, recognition and measurement of liabilities, other liabilities, contingent liabilities, and contingent assets, other revenues, presentation and disclosure, transitional provisions, as well as the effective date.

The entity has adopted the standard for the first time in the 2019/2020 annual financial statements.

GRAP 108 : Statuatory Receivables

The objective of this Standard is: to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.

It furthermore covers: Definitions, recognition, derecognition, measurement, presentation and disclosure, transitional provisions, as well as the effective date.

The entity has adopted the standard for the first time in the 2019/2020 annual financial statements.

GRAP 109 : Accounting by Principals and Agent

The objective of this Standard is to outline principles to be used by an entity to assess whether it is party to a principal-agent arrangement, and whether it is a principal or an agent in undertaking transactions in terms of such an arrangement. The Standard does not introduce new recognition or measurement requirements for revenue, expenses, assets and/or liabilities that result from principal-agent arrangements. The Standard does however provide guidance on whether revenue, expenses, assets and/or liabilities should be recognised by an agent or a principal, as well as prescribe what information should be disclosed when an entity is a principal or an agent.

It furthermore covers Definitions, Identifying whether an entity is a principal or agent, Accounting by a principal or agent, Presentation, Disclosure, Transitional provisions and Effective date.

The entity has adopted the standard for the first time in the 2019/2020 annual financial statements.

IGRAP 17 : Service Concession Arrangements Where a Grantor Controls a Significant Residual Interest in an Asset

This Interpretation of the Standards of GRAP provides guidance to the grantor where it has entered into a service concession arrangement, but only controls, through ownership, beneficial entitlement or otherwise, a significant residual interest in a service concession asset at the end of the arrangement, where the arrangement does not constitute a lease. This Interpretation of the Standards of GRAP shall not be applied by analogy to other types of transactions or arrangements.

A service concession arrangement is a contractual arrangement between a grantor and an operator in which the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time. The operator is compensated for its services over the period of the service concession arrangement, either through payments, or through receiving a right to earn revenue from third party users of the service concession asset, or the operator is given access to another revenue-generating asset of the grantor for its use.

Before the grantor can recognise a service concession asset in accordance with the Standard of GRAP on Service Concession Arrangements: Grantor, both the criteria as noted in paragraph .01 of this Interpretation of the Standards of GRAP need to be met. In some service concession arrangements, the grantor only controls the residual interest in the service concession asset at the end of the arrangement, and can therefore not recognise the service concession asset in terms of the Standard of GRAP on Service Concession Arrangements: Grantor.

A consensus is reached, in this Interpretation of the Standards of GRAP, on the recognition of the performance obligation and the right to receive a significant interest in a service concession asset.

The entity has adopted the interpretation for the first time in the 2019/2020 annual financial statements..

1. BASIS OF PRESENTATION (Continued)

IGRAP 18 : Recognition and Derecognition of Land

This Interpretation of the Standards of GRAP applies to the initial recognition and derecognition of land in an entity's financial statements. It also considers joint control of land by more than one entity.

When an entity concludes that it controls the land after applying the principles in this Interpretation of the Standards of GRAP, it applies the applicable Standard of GRAP, i.e. the Standard of GRAP on Inventories, Investment Property (GRAP 16), Property, Plant and Equipment (GRAP 17) or Heritage Assets. As this Interpretation of the Standards of GRAP does not apply to the classification, initial and subsequent measurement, presentation and disclosure requirements of land, the entity applies the applicable Standard of GRAP to account for the land once control of the land has been determined. An entity also applies the applicable Standards of GRAP to the derecognition of land when it concludes that it does not control the land after applying the principles in this Interpretation of the Standards of GRAP.

In accordance with the principles in the Standards of GRAP, buildings and other structures on the land are accounted for separately. These assets are accounted for separately as the future economic benefits or service potential embodied in the land differs from those included in buildings and other structures. The recognition and derecognition of buildings and other structures are not addressed in this Interpretation of the Standards of GRAP.

The entity has adopted the interpretation for the first time in the 2019/2020 annual financial statements.

IGRAP 19 : Liabilities to Pay Levies

This Interpretation of the Standards of GRAP provides guidance on the accounting for levies in the financial statements of the entity that is paying the levy. It clarifies when entities need to recognise a liability to pay a levy that is accounted for in accordance with GRAP 19.

To clarify the accounting for a liability to pay a levy, this Interpretation of the Standards of GRAP addresses the following issues:
- What is the obligating event that gives rise to the recognition of a liability to pay a levy?
- Does economic compulsion to continue to operate in a future period create a constructive obligation to pay a levy that will be triggered by operating in that future period?
- Does the going concern assumption imply that an entity has a present obligation to pay a levy that will be triggered by operating in a future period?
- Does the recognition of a liability to pay a levy arise at a point in time or does it, in some circumstances, arise progressively over time?
- What is the obligating event that gives rise to the recognition of a liability to pay a levy that is triggered if a minimum threshold is reached?

Consensus reached in this interpretation:
- The obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified by the legislation;
- An entity does not have a constructive obligation to pay a levy that will be triggered by operating in a future period as a result of the entity being economically compelled to continue to operate in that future period;
- The preparation of financial statements under the going concern assumption does not imply that an entity has a present obligation to pay a levy that will be triggered by operating in a future period;
- The liability to pay a levy is recognised progressively if the obligating event occurs over a period of time;
- If an obligation to pay a levy is triggered when a minimum threshold is reached, the accounting for the liability that arises from that obligation shall be consistent with the principles established in this Interpretation of the Standards of GRAP; and
- An entity shall recognise an asset, in accordance with the relevant Standard of GRAP, if it has prepaid a levy but does not yet have a present obligation to pay that levy.

The entity has adopted the interpretation for the first time in the 2019/2020 annual financial statements.

The adoption of these amendment is not expected to impact on the results of the municipality, but has resulted in more disclosures in the annual financial statements.

1. 7 STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

The following GRAP standards have been issued but are not yet effective and have not been early adopted by the municipality:

GRAP 18 Segment Reporting - issued February 2011, effective date on or after 01 April 2020
GRAP 34 Separate Financial Statements - issued March 2017, effective date on or after 01 April 2020
GRAP 35 Consolidated Financial Statements - issued March 2017, effective date on or after 01 April 2020
GRAP 36 Investments in Associates and Joint Ventures - issued March 2017, effective date on or after 01 April 2020
GRAP 37 Joint Arrangements - issued March 2017, effective date on or after 01 April 2020
GRAP 38 Disclosure of Interests in Other Entities - issued March 2017, effective date on or after 01 April 2020
GRAP 110 Living and Non-living Resources - issued March 2017, effective date on or after 01 April 2020

1. 7 STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

All the other listed standards as listed above will only be effective when a date is announced by the Minister of Finance.

Where a standard of GRAP is approved as effective, it replaces the equivalent statement of International Public Sector Accounting Standards Board, International Financial Reporting Standards or Generally Accepted Accounting Principles. Where a standard of GRAP has been issued, but is not yet effective, the municipality may elect to apply the principles established in that standard in developing an appropriate accounting policy dealing with a particular section or event before applying paragraph 12 of the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

Management has considered all of the above-mentioned GRAP standards issued but not yet effective and anticipates that the adoption of these standards will not have a significant impact on the financial position, financial performance or cash flows of the municipality.

GRAP 18 - Segment Reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which an municipality reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an municipality that provides specific outputs or achieves particular operating objectives that are in line with the municipality's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an municipality within a particular region.

Requires additional disclosures on the various segments of the business in a manner that is consistent with the information reported internally to management of the municipality. The precise impact of this on the financial statements of the Municipality is still being assessed but it is expected that this will only result in additional disclosures without affecting the underlying accounting.

The effective date of the standard is for years beginning on or after 01 April 2020.

GRAP 34 – Separate Financial Statements

The objective of this Standard is to prescribe the accounting and disclosure requirements for investments in controlled entities, joint ventures and associates when an entity prepares separate financial statements.

It furthermore covers Definitions, Preparation of separate financial statements, Disclosure, Transitional provisions and Effective date.

The effective date of the standard is for years beginning on or after 01 April 2020.

No significant impact on the financial statements of the Municipality is expected. The municipality does not have investments in associates or joint ventures.

GRAP 35 – Consolidated Financial Statements

The objective of this Standard is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.

To meet this objective, the Standard:
- requires an entity (the controlling entity) that controls one or more other entities (controlled entities) to present consolidated financial statements;
- defines the principle of control, and establishes control as the basis for consolidation;
- sets out how to apply the principle of control to identify whether an entity controls another entity and therefore must consolidate that entity;
- sets out the accounting requirements for the preparation of consolidated financial statements; and
- defines an investment entity and sets out an exception to consolidating particular controlled entities of an investment entity.

It furthermore covers Definitions, Control, Accounting requirements, Investment entities: Fair value requirement, Transitional provisions and Effective date.

The effective date of the standard is for years beginning on or after 01 April 2020.

No significant impact on the financial statements of the Municipality is expected.

GRAP 36 – Investments in Associates and Joint Ventures

The objective of this Standard is to prescribe the accounting for investments in associates and joint ventures and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

It furthermore covers Definitions, Significant influence, Equity method, Application of the equity method, Separate financial statements, Transitional provisions and Effective date.

The effective date of the standard is for years beginning on or after 01 April 2020.

No significant impact on the financial statements of the Municipality is expected.

GRAP 37 – Joint Arrangements

The objective of this Standard is to establish principles for financial reporting by entities that have an interest in arrangements that are controlled jointly (i.e. joint arrangements).

To meet this objective, the Standard defines joint control and requires an entity that is a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and to account for those rights and obligations in accordance with that type of joint arrangement.

It furthermore covers Definitions, Joint arrangements, Financial statements and parties to a joint arrangement, Separate financial statements, Transitional provisions and Effective date.

The effective date of the standard is for years beginning on or after 01 April 2020

No significant impact on the financial statements of the Municipality is expected.

GRAP 38 – Disclosure of Interest in Other Entities

The objective of this Standard is to require an entity to disclose information that enables users of its financial statements to evaluate:
- the nature of, and risks associated with, its interests in controlled entities, unconsolidated controlled entities, joint arrangements and associates, and structured entities that are not consolidated; and
- the effects of those interests on its financial position, financial performance and cash flows.

It furthermore covers Definitions, Disclosing information about interests in other entities, Significant judgements and assumptions, Investment entity status, Interests in controlled entities, Interests in joint arrangements and associates, Interests in structured entities that are not consolidated, Non-qualitative ownership interests, Controlling interests acquired with the intention of disposal, Transitional provisions and Effective date.

The effective date of the standard is for years beginning on or after 01 April 2020.

No significant impact on the financial statements of the Municipality is expected.

GRAP 110 Living and Non-living Resources

The objective of this Standard is to prescribe the:
- recognition, measurement, presentation and disclosure requirements for living resources; and
- disclosure requirements for non-living resources

It furthermore covers Definitions, Recognition, Measurement, Depreciation, Impairment, Compensation for impairment, Transfers, Derecognition, Disclosure, Transitional provisions and Effective date.

The subsequent amendments to the Standard of GRAP on Living and Non-living Resources resulted from editorial changes to the original text and inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 17 on Property, Plant and Equipment (IPSAS 17) as a result of the IPSASB's Improvements to IPSASs 2014 issued in January 2015 and Improvements to IPSASs 2015 issued in March 2016.

The most significant changes to the Standard are:
- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23; and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets
- IPSASB amendments: To clarify the revaluation methodology of the carrying amount and accumulated depreciation when a living resource is revalued; To clarify acceptable methods of depreciating assets; and To define a bearer plant and include bearer plants within the scope of GRAP 17 or GRAP 110, while the produce growing on bearer plants will remain within the scope of GRAP 27.

The effective date of the standard is for years beginning on or after 01 April 2020.

No significant impact on the financial statements of the Municipality is expected.

2. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, other than investment property, or for administrative purposes, and are expected to be used during more than one year.

The cost of an item of property, plant and equipment is recognised as an asset if, and only if it is probable that future economic benefits or service potential associated with the item will flow to the municipality, and if the cost or fair value of the item can be measured reliably.

Property, plant and equipment are initially recognised at cost on its acquisition date or in the case of assets acquired by grant or donation, being the fair value of the asset at acquisition date. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

When significant components of an item of property, plan and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The cost of an item of property, plant and equipment acquired in exchange for a non-monetary assets or monetary assets, or a combination of monetary and non-monetary assets is measured at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident. If the acquired item could not be measured at its fair value, its cost is measured at the carrying amount of the asset given up.

Major spare parts and servicing equipment qualify as property, plant and equipment when the municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

2 2 Subsequent Measurement

Subsequent expenditure relating to property, plant and equipment is capitalised if it is probable that future economic benefits or service potential associated with the subsequent expenditure will flow to the municipality and the cost or fair value of the subsequent expenditure can be reliably measured. Subsequent expenditure incurred on an asset is only capitalised when it increases the capacity or future economic benefits associated with the asset. Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component.

Subsequently all property plant and equipment are measured at cost, less accumulated depreciation and accumulated impairment losses.

Subsequent to initial recognition, buildings are carried at cost less accumulated depreciation and impairment losses.

Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up is included in surplus or deficit when the compensation becomes receivable.

2 3 Depreciation

Depreciation on assets other than land is calculated on cost, using the straight-line method, to allocate their cost to their residual values over the estimated useful lives of the assets. The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately. The depreciation rates are based on the following estimated useful lives.

Depreciation only commences when the asset is available for use, unless stated otherwise.

The following is an indication of the maximum expected useful life of the assets:

	Years		Years
Infrastructure		***Buildings***	30
Roads			
Paving	30	**Landfill Sites**	7 - 50
Asphalt	30		
Gravel	10	***Other***	
Electricity	20 - 25	Specialist Vehicles	20
Water	20	Other Vehicles	7
Sewer	20 - 25	Office Equipment	10
		Furniture and Fittings	10
Community		Specialised Plant and Equipment	15
Recreational Facilities	20 -30	Other Plant and Equipment	5
Security	5		
Fencing	3 - 5	**Land**	Indefinite

The assets estimated useful lives and depreciation method are reviewed annually, and adjusted prospectively if appropriate, at each reporting date.

2. PROPERTY, PLANT AND EQUIPMENT (Continued)

2 4 Incomplete Construction Work

Incomplete construction work is stated at historical cost. Depreciation and impairment (if applicable) only commences when the asset becomes available for use and transferred to the relevant asset class.

2 5 Finance Leases

Assets capitalised under finance leases are depreciated over their expected useful lives on the same basis as PPE controlled by the municipality or where shorter, the term of the relevant lease if there is no reasonable certainty that the municipality will obtain ownership by the end of the lease term.

2 6 Land & Buildings

Land is not depreciated as it is deemed to have an indefinite useful life. Buildings and other structures situated on land is depreciated less their residual value over their useful life.

2 7 Infrastructure Assets

Infrastructure Assets are any assets that are part of a network of similar assets. Infrastructure assets are shown at cost less accumulated depreciation and accumulated impairment. Infrastructure assets are treated similarly to all other assets of the municipality in terms of the asset management policy.

2 8 Derecognition of property, plant and equipment

The carrying amount of an item of property, plant and equipment is derecognised on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. Gains are not classified as revenue.

Gains or losses are calculated as the difference between the carrying value of assets (cost less accumulated depreciation and accumulated impairment losses) and the disposal proceeds is included in the Statement of Financial Performance as a gain or loss on disposal of property, plant and equipment.

The estimated useful lives and depreciation methods have been reviewed for the year ended 30 June 2017, and any changes therein have been implemented in accordance with the requirements of GRAP 17, GRAP 3.

3 INTANGIBLE ASSETS

Intangible assets are initially recognised at cost. The cost of an intangible asset is the purchase price and other costs attributable to bring the intangible asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality, or where an intangible asset is acquired at no cost, or for a nominal cost, the cost shall be its fair value as at the date of acquisition. Trade discounts and rebates are deducted in arriving at the cost. Intangible assets acquired separately or internally generated are reported at cost less accumulated amortisation and accumulated impairment losses. The cost of an intangible asset acquired in exchange for a non-monetary assets or monetary assets, or a combination of monetary and non-monetary assets is measured at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident. If the acquired item could not be measured at its fair value, its cost is measured at the carrying amount of the asset given up. If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

3 1 Initial Recognition

Identifiable non–monetary assets without physical substance are classified and recognised as intangible assets. The municipality recognises an intangible asset in its Statement of Financial Position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality and the cost or fair value of the asset can be measured reliably.

3 2 Subsequent Measurement, Amortisation and Impairment

After initial recognition, an intangible asset is carried at its cost less any accumulated amortisation and any accumulated impairment losses.

Expenditure on an intangible item that was initially recognised as an expense shall not be recognised as part of the cost of an intangible asset at a later date.

3 INTANGIBLE ASSETS (continued)

3 1 Subsequent Measurement, Amortisation and Impairment

In terms of GRAP 31, intangible assets are distinguished between internally generated intangible assets and other intangible assets. It is further distinguished between indefinite or finite useful lives. Amortisation is charged on a straight-line basis over the intangible assets' useful lives (when the intangible asset is available for use), which are estimated to be between 3 to 5 years, the residual value of assets with finite useful lives is zero, unless an active market exists. Where intangible assets are deemed to have an indefinite useful life, such intangible assets are not amortised, however such intangible assets are subject to an annual impairment test. The useful lives per category of intangible assets are detailed below:

Intangible asset	Years
Software	2-10

Intangible assets are annually tested for indicators of impairment, including intangible assets not yet available for use. Where items of intangible assets have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified except where the impairment reverses a previous revaluation. The impairment loss is the difference between the carrying amount and the recoverable amount.

The estimated useful life, residual values and amortisation method are reviewed annually at the end of the financial year. Any adjustments arising from the annual review are applied prospectively as a change in accounting estimate in the Statement of Financial Performance.

3 3 Derecognition

Intangible assets are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the net disposals proceeds and the carrying value and is recognised in the Statement of Financial Performance.

4 INVESTMENT PROPERTY

4 1 Initial Recognition

Investment property includes property (land or a building, or part of a building, or both land or buildings held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations.

Investment property is recognized as an asset where, and only where:

- It is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality; and
- The cost or fair value of the investment property can be measured reliably.

At initial recognition, the municipality measures investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition.

Based on management's judgement, the following criteria have been applied to distinguish investment properties from owner occupied property or property held for resale:

- All properties held to earn market-related rentals or for capital appreciation or both and that are not used for administrative purposes and that will not be sold within the next 12 months are classified as Investment Properties;
- Land held for a currently undetermined future use. (If the Municipality has not determined that it will use the land as owner-occupied property or for short-term sale in the ordinary course of business, the land is regarded as held for capital appreciation); and
- A building that is vacant but is held to be leased out under one or more operating leases on a commercial basis to external parties.

The following assets do not fall in the ambit of Investment Property and shall be classified as Property, Plant and Equipment or Inventory as appropriate:

- Property intended for sale in the ordinary course of operations or in the process of construction or development for such sale;
- Property being constructed or developed on behalf of third parties;
- Owner-occupied property, including (among other things) property held for future use as owner-occupied property, property held for future development and subsequent use as owner-occupied property, property occupied by employees such as housing for personnel (whether or not the employees pay rent at market rates) and owner-occupied property awaiting disposal;
- Property that is being constructed or developed for future use as investment property;
- Property that is leased to another municipality under a finance lease;
- Property held to provide a social service and which also generates cash inflows, e.g. property rented out below market rental to sporting bodies, schools, low income families, etc.; and
- Property held for strategic purposes or service delivery.

4. INVESTMENT PROPERTY (Continued)

4 2 Subsequent Measurement

4 2. 1 Subsequent Measurement - Cost Model

Investment property is measured using the cost model. Investment Property is stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated on cost, using the straight-line method over the useful life of the property, which is estimated at 30 - 60 years. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The residual value of the investment properties been assumed to be zero.
The land is not depreciated as it has an indefinite useful life.

The gain or loss arising on the disposal of an investment property is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

4 3 Derecognition

An investment property shall be derecognised (removed from the statement of financial position) on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

5 IMPAIRMENT OF ASSETS

The municipality classifies all assets held with the primary objective of generating a commercial return as cash-generating assets. All other assets are classified as non-cash-generating assets.

5 1. Impairment of Cash generating assets

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the individual asset.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

The best evidence of fair value less cost to sell is the price in a binding sale agreement in an arms length transaction, adjusted for the incremental cost that would be directly attributable to the disposal of the asset.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit.

An impairment loss is recognised for cash-generating units if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit as follows:
• to the assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

A municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit.

5 2 Impairment of Non-Cash generating assets

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

If there is any indication that an asset may be impaired, the recoverable service amount is estimated for the individual asset. If it is not possible to estimate the recoverable service amount of the individual asset, the recoverable service amount of the cash-generating unit to which the asset belongs is determined.

The recoverable service amount is the higher of a non-cash generating asset's fair value less costs to sell and its value in use. The value in use for a non-cash generating asset is the present value of the asset's remaining service potential.

If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit.

5 IMPAIRMENT OF ASSETS (continued)

5 2 Impairment of Non-Cash generating assets

An impairment loss is recognised for non cash-generating units if the recoverable service amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit to the assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

A municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable service amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit.

6 FINANCIAL INSTRUMENTS

The municipality has various types of financial instruments and these can be broadly categorised as either financial assets, financial liabilities or equity instruments in accordance with the substance of the contractual agreement . The municipality only recognises a financial instrument when it becomes a party to the contractual provisions of the instrument.

Initial recognition

Financial assets and financial liabilities are recognised on the municipality's Statement of Financial Position when the municipality becomes party to the contractual provisions of the instrument.

The municipality does not offset a financial asset and a financial liability unless a legally enforceable right to set off the recognised amounts currently exist; and the municipality intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The effective interest rate method

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Amortised cost

Amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction for impairment or uncollectibility.

6 1 Financial Assets - Classification

A financial asset is any asset that is cash or a contractual right to receive cash.

In accordance with GRAP 104 the Financial Assets of the municipality are classified as follows into the three categories allowed by this standard:

Financial assets at amortised cost

Financial assets at fair value

Financial assets at cost

The municipality has the following types of financial assets as reflected on the face of the Statement of Financial Position or in the notes thereto:

Type of Financial Asset	Classification in terms of GRAP 104
Short-term Investment Deposits – Call	Financial Instruments at Amortised Cost
Bank Balances and Cash	Financial Instruments at Amortised Cost
Consumer Debtors	Financial Instruments at Amortised Cost
Other Debtors	Financial Instruments at Amortised Cost

Cash includes cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash, that are held with registered banking institutions and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts. The municipality categorises cash and cash equivalents as financial assets.

6 **FINANCIAL INSTRUMENTS (continued)**

6 2 Financial Liabilities - Classification

A financial liability is a contractual obligation to deliver cash or another financial asset to another municipality. The municipality has the following types of financial liabilities as reflected on the face of the Statement of Financial Position or in the notes thereto:

Type of Financial Liability	Classification in terms of GRAP 104
Long-term Liabilities	Financial liabilities measured at amortised cost
Other Creditors	Financial liabilities measured at amortised cost
Trade Creditors	Financial liabilities measured at amortised cost
Accruals	Financial liabilities measured at amortised cost
Consumer Deposits	Financial liabilities measured at amortised cost
Retention	Financial liabilities measured at amortised cost

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdrafts are expensed as incurred.

6 3 Initial and Subsequent Measurement

When a financial asset or financial liability is recognised initially, an municipality shall measure it at its fair value plus, in the case of a financial asset or a financial liability not subsequently measured at fair value, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Financial Liabilities held at amortised cost

Any other financial liabilities are classified as "Other financial liabilities" (All payables, loans and borrowings are classified as other liabilities) and are initially measured at fair value, net of transaction costs. Trade and other payables, interest bearing debt including finance lease liabilities, non-interest bearing debt and bank borrowings are subsequently measured at amortised cost using the effective interest rate method. Interest expense is recognised in the Statement of Financial Performance by applying the effective interest rate. Bank borrowings, consisting of interest-bearing short-term bank loans, repayable on demand and overdrafts are recorded at the proceeds received. Finance costs are accounted for using the accrual basis and are added to the carrying amount of the bank borrowing to the extent that they are not settled in the period that they arise.

6 4 Impairment of Financial Assets

Financial assets, other than those at fair value, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence of impairment of Financial Assets (such as the probability of insolvency or significant financial difficulties of the debtor). If there is such evidence the recoverable amount is estimated and an impairment loss is recognised in accordance with GRAP 104.

Financial assets carried at amortised cost

Debtors encompasses long term debtors, consumer debtors and other debtors.

Initially Debtors are valued at fair value and subsequently carried at amortised cost using the effective interest rate method. An estimate is made for doubtful debt based on past default experience of all outstanding amounts at year-end. Bad debts are written off the year in which they are identified as irrecoverable. Debtors within 12 months from the date of reporting are classified as current.

A provision for impairment of debtors is established when there is objective evidence that the municipality will not be able to collect all amounts due according to the original terms of receivables. The provision is made in accordance with GRAP 104 whereby the recoverability of debtors are assessed individually and then collectively after grouping the assets in financial assets with similar credit risk characteristics. The amount of the provision is the difference between the financial asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Cash flows relating to short-term receivables are not discounted where the effect of discounting is immaterial.

Government accounts are not provided for as such accounts are regarded as receivable.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets carried at amortised cost with the exception of consumer debtors, where the carrying amount is reduced through the use of an allowance account. When a consumer debtor is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against revenue. Changes in the carrying amount of the allowance account are recognised in the Statement of Financial Performance.

The amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the Statement of Financial Performance to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

6 FINANCIAL INSTRUMENTS (continued)

6 5 Derecognition of Financial Liabilities

The municipality derecognises Financial Liabilities when, and only when, the municipality's obligations are discharged, cancelled or they expire. The municipality recognises the difference between the carrying amount of the financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, in the Statement of Financial Performance.

7 INVENTORIES

7 1 Initial Recognition

Inventories comprise current assets held for sale and current assets for consumption or distribution during the ordinary course of business. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus taxes, transport costs and any other costs in bringing the inventories to their current location and condition. Where inventory is manufactured, constructed or produced, the cost includes the cost of labour, materials and overheads used during the manufacturing process.

Where inventory is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of the item on the date acquired.

Direct costs relating to properties that will be sold as inventory are accumulated for each separately identifiable development. Costs also include a proportion of overhead costs.

7 2 Subsequent Measurement

Consumable stores, raw materials, work-in-progress and finished goods

Consumable stores, raw materials, work-in-progress and finished goods are valued at the lower of cost and net realisable value (net amount that an municipality expects to realise from the sale on inventory in the ordinary course of business). In general, the basis of determining cost is the weighted average cost of commodities. If inventories are to be distributed at no charge or for a nominal charge they are valued at the lower of cost and net realisable value.

Water inventory

Water is regarded as inventory when the municipality has incurred purification costs on water obtained from natural resources (rain, rivers, springs, boreholes etc.). However, water in dams, that are filled by natural resources and that has not yet been treated, and is under the control of the municipality but can not be measured reliably as there is no cost attached to the water, and it is therefore not recognised in the statement of financial position. The basis of determining the cost of water purchased and not yet sold at statement of financial position date comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventory to its present location and condition, net of trade discounts and rebates. Water and purified effluent are valued by using the weighted average method, at the lowest of purified cost and net realisable value, insofar as it is stored and controlled in reservoirs at year-end.

Redundant and slow-moving inventories

Redundant and slow-moving inventories are identified and written down from cost to net realisable value with regard to their estimated economic or realisable values and sold by public auction. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Differences arising on the measurement of such inventory at the lower of cost and net realisable value are recognised in the Statement of Financial Performance in the year in which they arise. The amount of any reversal of any write-down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The carrying amount of inventories is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset.

8 REVENUE RECOGNITION

8 1 General

Revenue, excluding value-added taxation where applicable, is derived from a variety of sources which include rates levied, grants from other tiers of government and revenue from trading activities and other services provided. Revenue is recognised when it is probable that future economic benefits or service potential will flow to the municipality and these benefits can be measured reliably, except when specifically stated otherwise. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The municipality bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. Furthermore services rendered are recognised by reference to the stage of completion of the transaction at the reporting date.

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the municipality's activities. Revenue is shown net of value-added tax, returns, rebates and discounts.

Revenue from non-exchange transactions refers to transactions where the municipality received revenue from another municipality without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

8. REVENUE RECOGNITION (Continued)

8 1 Revenue from Exchange Transactions

Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered , the value of which approximates the consideration received or receivable.

8 1. 1 Service Charges

Service charges relating to sanitation and sewage are levied in terms of the approved tariffs.

Service charges relating to electricity and water are based on consumption. Meters are normally read on a monthly basis and are recognised as revenue when invoiced. Where meters are not read monthly, provisional estimates of consumption, based on the consumption history, are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced, except at year-end when estimates of consumption up to year-end are recorded as revenue without being invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is made based on the average monthly consumption of consumers.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the number of refuse containers on each property, regardless of whether or not all containers are emptied during the month.

In circumstances where services cannot readily be measured and quantified, a flat rate service charge is levied monthly on such properties.

8 1. 2 Pre-paid Electricity

Revenue from the sale of electricity pre-paid meter cards are recognised at the point of sale. An adjustment for an unutilised portion is made at year-end based on the average consumption history.

8 1. 3 Finance income

Interest earned on investments is recognised in the Statement of Financial Performance on the time proportionate basis that takes into account the effective yield on the investment.

Interest earned on unutilised conditional grants is allocated directly to the creditor: unutilised conditional grants, if the grant conditions indicate that interest is payable to the funder.

8 1. 4 Tariff Charges

Revenue arising from the application of the approved tariff charges is recognised when the relevant service is rendered by applying the relevant authorised tariff. This includes the issuing of licences and permits.

8 1. 5 Sale of Goods

Revenue from the sale of goods is recognised when all the following conditions have been met:

- The municipality has transferred to the buyer the significant risks and rewards of ownership of the goods.
- The municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.
- The amount of revenue can be measured reliably.
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality.
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

8 1. 6 Rentals

Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

8 2 Revenue from Non-exchange Transactions

Revenue from non-exchange transactions refers to transactions where the municipality received revenue from another municipality without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

An inflow of resources from a non-exchange transaction, that meets the definition of an asset shall be recognised as an asset when it is probable that the future economic benefits or service potential associated with the asset will flow to the municipality and the fair value of the asset can be measured reliably. The asset shall be recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow. A present obligation arising from a non-exchange transaction that meets the definition of a liability will be recognised as a liability when it is probable that an outflow of economic benefit will be required to settle the obligation and a reliable estimate of the amount can be made.

8. REVENUE RECOGNITION (Continued)

8 2 1 Rates and Taxes

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportion basis with reference to the principal amount receivable and effective interest rate applicable. A composite rating system charging different rate tariffs is employed. Rebates are granted to certain categories of ratepayers and are deducted from revenue.

8 2 2 Fines

Fines constitute both spot fines and summonses. Revenue from spot fines and summonses is recognised when payment is received, together with management's best estimate of the probable inflows from the amounts not yet collected which has reached warrant stage.

8 2 3 Revenue from conditional grants, building and funding

Income received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the municipality with no future related costs are recognised in the Statement of Financial Performance in the period in which they become receivable.

8 2 4 Revenue from Recovery of Unauthorised, Irregular, Fruitless and Wasteful Expenditure

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No.56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain. Such revenue is based on legislated procedures.

9 PROVISIONS

Provisions are recognised when:

- The municipality has a present legal or constructive obligation as a result of past events;
- It is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- A reliable estimate can be made of the obligation

The best estimate of the expenditure required to settle the present obligation is the amount that an municipality would rationally pay to settle the obligation at the reporting date or to transfer it to a third party at that time and are determined by the judgement of the management of the municipality, supplemented by experience of similar transactions and, in some cases, reports from independent experts. The evidence considered includes any additional evidence provided by events after the reporting date. Uncertainties surrounding the amount to be recognised as a provision are dealt with by various means according to the circumstances, Where the provision being measured involves a large population of items, the obligation is estimated by weighting all possible outcomes by their associated probabilities.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision. An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it - this unavoidable cost resulting from the contract is the amount of the provision to be recognised.

Provisions are reviewed at reporting date and the amount of a provision is the present value of the expenditure expected to be required to settle the obligation. When the effect of discounting is material, provisions are determined by discounting the expected future cash flows that reflect current market assessments of the time value of money. The impact of the periodic unwinding of the discount is recognised in the Statement of Financial Performance as a finance cost as it occurs.

9 PROVISIONS (Continued)

Environmental rehabilitation provisions

Estimated long-term environmental provisions, comprising rehabilitation and landfill site closure, are based on the municipality's policy, taking into account current technological, environmental and regulatory requirements. The provision for rehabilitation is recognised as and when the environmental liability arises. To the extent that the obligations relate to the asset, they are capitalised as part of the cost of those assets. Any subsequent changes to an obligation that did not relate to the initial related asset are charged to the Statement of Financial Performance.

10 EMPLOYEE BENEFITS

10 1 Short-term Employee Benefits

Remuneration to employees is recognised in the Statement of Financial Performance as the services are rendered, except for non-accumulating benefits, which are only recognised when the specific event occurs.

The municipality treats its provision for leave pay as an accrual.

The costs of all short-term employee benefits such as leave pay, are recognised during the period in which the employee renders the related service. The liability for leave pay is based on the total accrued leave days at year end and is shown as a creditor in the Statement of Financial Position. The municipality recognises the expected cost of performance bonuses only when the municipality has a present legal or constructive obligation to make such payment and a reliable estimate can be made.

10 2 Post employment benefits

The Municipality provides post-retirement medical benefits by subsidizing the medical aid contributions of certain retired staff according to the rules of the medical aid funds. Council pays 60% as contribution and the remaining 40% are paid by the members. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The present value of the defined benefit liability is actuarially determined in accordance with GRAP 25 – Employee benefits (using a discount rate applicable to high quality government bonds). The plan is unfunded.

10 2. 1 Post-retirement Health Care Benefits:

The municipality has an obligation to provide Post-retirement Health Care Benefits to certain of its retirees. According to the rules of the Medical Aid Funds, with which the municipality is associated, a member (who is on the current Conditions of Service), on retirement, is entitled to remain a continued member of the Medical Aid Fund, in which case the municipality is liable for a certain portion of the medical aid membership fee.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation. The plan is unfunded. The present value of the defined benefit obligation is calculated using the projected unit credit method, incorporating actuarial assumptions and a discount rate based on the government bond rate. Valuations of these obligations are carried out every year by independent qualified actuaries.

Actuarial gains or losses are recognised immediately in the Statement of Financial Performance.

Past-service costs are recognised immediately in expenditure, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

10 2. 2 Long-service Allowance

The municipality has an obligation to provide Long-service Allowance Benefits to all of its employees. According to the rules of the Long-service Allowance Scheme, which the municipality instituted and operates, an employee (who is on the current Conditions of Service), is entitled to a cash allowance, calculated in terms of the rules of the scheme. The municipality's liability is based on an actuarial valuation. The projected unit credit method has been used to value the liabilities. Actuarial gains and losses on the long-term incentives are accounted for through the statement of financial performance.

11 LEASES

Lease Classification
Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the municipality.

Leases other than finance leases are classified as operating leases.

11 LEASES (continued)

11 1 The Municipality as Lessee

Finance leases

Where the Municipality enters into a finance lease, Property, plant and equipment or Intangible Assets subject to finance lease agreements are capitalised at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. Corresponding liabilities are included in the Statement of Financial Position as Finance Lease Liabilities. The corresponding liabilities are initially recognised at the inception of the lease and are measured at lower of fair value of the asset or the PV of the minimum lease payments, discounted for the effect of interest. In discounting the lease payments, the municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred. Lease payments are allocated between the lease finance cost and the capital repayment using the implicit interest rate method.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to Property, Plant and Equipment or intangibles. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed in the Statement of Financial Performance when incurred. The accounting policies relating to derecognition of financial instruments are applied to lease payables. The lease asset is depreciated over the shorter of the asset's useful life or the lease term.

Operating leases

The municipality recognises operating lease rentals as an expense in the Statement of Financial Performance on a straight-line basis over the term of the relevant lease. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

11 2 The Municipality as Lessor

Operating lease rental income is recognised on a straight-line basis over the term of the relevant lease.

11 3 Determining whether an arrangement contains a lease

At inception of an arrangement, the Municipality determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfilment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Municipality the right to control the use of the underlying asset. At inception or upon reassessment of the arrangement, the Municipality separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Municipality concludes for a finance lease that it is impracticable to separate the payments reliably, an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognised using the Municipality's incremental borrowing rate.

12 BORROWING COSTS

Borrowing costs are expensed as they occur.

13 GRANTS-IN-AID

The municipality transfers money to individuals, organisations and other sectors of government from time to time. When making these transfers, the municipality does not:

- Receive any goods or services directly in return, as would be expected in a purchase or sale transaction;
- Expect to be repaid in future; or
- Expect a financial return, as would be expected from an investment.

These transfers are recognised in the Statement of Financial Performance as expenses in the period that the events giving rise to the transfer occurred.

14 VALUE ADDED TAX

The Municipality is registered with SARS for VAT on the payments basis, in accordance with Sec15(2)(a) of the Value-Added Tax Act No 89 of 1991. Revenue, expenses and assets are recognised net of the amounts of value added tax. The net amount of Value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

15. UNAUTHORISED EXPENDITURE

Unauthorised expenditure is overspending on the total amount appropriated in the municipality's budget or overspending on the total amount appriopraied for a vote or expenditure unrelated to teh departmental of functional area or expenditure of money appropriated for a specific purpose or a grant by the municipality otherwise than in accordance with the conditions in terms of the Municipal Finance Management Act (Act No 56 of 2003). All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance. If the expenditure is not condoned by the Council it is treated as an asset until it is recovered or written off as irrecoverable. Unauthorsised expenditure can only be treated as an asset (recievable) if a responsible party to revocer the money from is identified.

16 IRREGULAR EXPENDITURE

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No 56 of 2003), the Municipal Systems Act (Act No 32 of 2000), the Public Office Bearers Act (Act No 20 of 1998) or is in contravention of the Municipality's or Municipal Entities' supply chain management policies. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as an expense in the Statement of Financial Performance in the period it occurred and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

17 FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance. If the expenditure is not condoned by the Council it is treated as an asset until it is recovered or written off as irrecoverable.

18 CHANGES IN ACCOUNTING POLICIES, ESTIMATES AND ERRORS

Changes in accounting policies that are effected by management have been applied retrospectively in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the change in policy. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable. Refer to the notes to the Annual Financial Statements for details of changes in accounting policies where applicable.

Changes in accounting estimates are applied prospectively in accordance with GRAP 3 requirements. Details of changes in estimates are disclosed in the notes to the annual financial statements where applicable.

Correction of errors is applied retrospectively in the period in which the error has occurred in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the error. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable. Refer to the notes to the Annual Financial Statements for details of corrections of errors recorded during the period under review where applicable.

19 RELATED PARTIES

Individuals as well as their close family members, and/or entities are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Related parties include key management personnel such as the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager and close family members of key management personnel.

20 EVENTS AFTER THE REPORTING DATE

Events after the reporting date that are classified as adjusting events have been accounted for in the Annual Financial Statements. The events after the reporting date that are classified as non-adjusting events after the reporting date have been disclosed in the notes to the Annual Financial Statements.

21 FOREIGN CURRENCIES

Transactions in foreign currencies are initially recorded at the prevailing exchange rate on the dates of the transactions. Monetary assets and liabilities denominated in such foreign currencies are retranslated at the rates prevailing at the reporting date. Exchange differences are included in the Statement of Financial Performance.

22 COMPARATIVE INFORMATION

22 1 Current year comparatives:

Budgeted amounts have, in accordance with GRAP 24, been provided to these financial statements and forms part of the Annual Financial Statements.

22 COMPARATIVE INFORMATION (continued)

22 2 Prior year comparatives

When the presentation or classification of items in the Annual Financial Statements is amended, prior period comparative amounts are reclassified, unless a standard of GRAP does not require the restatements of comparative information. The nature and reasons for the reclassification are disclosed. Where material accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

22 3 Budget Information

The annual budget figures for the period 1 July 2016 to 30 June 2017 have been prepared and presented in accordance with the GRAP standard under the accrual basis of accounting for budgets approved by Council by nature classification, and are consistent with the accounting policies adopted by the Council for the preparation of these financial statements. Explanatory comment is provided in the notes to the annual financial statements giving firstly reasons for overall growth or decline in the budget and secondly motivations for over- or under spending on line items. The annual budget figures included in the financial statements are for the Municipality and do not include budget information relating to subsidiaries or associates. These figures are those approved by the Council at the beginning and during the year following a period of consultation with the public as part of the Integrated development plan.

23 CONTINGENT ASSETS AND CONTINGENT LIABILITIES

Contingent liabilities represent a possible obligation that arises from past events and whose existence will be confirmed only by an occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality. A contingent liability can also arise as a result of a present obligation that arises from past events but which is not recognised as a liability either because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

Contingent assets represent possible assets that arise from past events and whose existence will be confirmed only by an occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in the notes to the annual financial statements.

24 TREATMENT OF ADMINISTRATION AND OTHER OVERHEAD EXPENSES

The costs of internal support services are transferred to the various services and departments to whom resources are made available.

25 CAPITAL COMMITMENTS

Items are classified as commitments where the Municipality commits itself to future transactions that will normally result in the outflow of resources.

Capital commitments are not recognised in the statement of financial position as a liability but are included in the disclosure notes in the following cases:

- Approved and contracted commitments, where the expenditure has been approved and the contract has been awarded at the reporting date, where disclosure is required by a specific standard of GRAP.
- Approved but not yet contracted commitments, where the expenditure has been approved and the contract has yet to be awarded or is awaiting finalisation at the reporting date.
- Items are classified as commitments where the municipality commits itself to future transactions that will normally result in the outflow of resources.
- Contracts that are entered into before the reporting date, but goods and services have not yet been received are disclosed in the disclosure notes to the financial statements.
- Other commitments for contracts are non-cancellable or only cancellable at significant cost contracts should relate to something other than the business of the municipality.

26 MATERIAL LOSSES

Water and electricity losses are required to be disclosed as part of the material loss disclosure of the MFMA Section 125.

Losses are calculated on the following basis -
• Nr of units of lost supply, being the difference between what was supplied and what has been sold at the per unit tariff rate.
• The unit tariff rate, in the case of electricity being the lower rate of Kwh as charged per council and the case of water the lowest rate per Kl (excl VAT).

27 STATUTORY RECEIVABLES

Identification

Statutory receivables are receivables that arise from legislation, supporting regulations, or similar means, and require settlement by another entity in cash or another financial asset.
Carrying amount is the amount at which an asset is recognised in the statement of financial position.
The cost method is the method used to account for statutory receivables that requires such receivables to be measured at their transaction amount, plus any accrued interest or other charges (where applicable) and, less any accumulated impairment losses and any amounts derecognised.
Nominal interest rate is the interest rate and/or basis specified in legislation, supporting regulations or similar means.
The transaction amount for a statutory receivable means the amount specified in, or calculated, levied or charged in accordance with, legislation, supporting regulations, or similar means.

Recognition

The entity recognises statutory receivables as follows:
• if the transaction is an exchange transaction, using the policy on Revenue from exchange transactions;
• if the transaction is a non-exchange transaction, using the policy on Revenue from non-exchange transactions (Taxes and transfers); or
• if the transaction is not within the scope of the policies listed in the above or another Standard of GRAP, the receivable is recognised when the definition of an asset is met and, when it is probable that the future economic benefits or service potential associated with the asset will flow to the entity and the transaction amount can be measured reliably.

Initial measurement

The entity initially measures statutory receivables at their transaction amount.

Subsequent measurement

The entity measures statutory receivables after initial recognition using the cost method. Under the cost method, the initial measurement of the receivable is changed subsequent to initial recognition to reflect any:
• interest or other charges that may have accrued on the receivable (where applicable);
• impairment losses; and
• amounts derecognised

Accrued interest

Where the entity levies interest on the outstanding balance of statutory receivables, it adjusts the transaction amount after initial recognition to reflect any accrued interest. Accrued interest is calculated using the nominal interest rate.
Interest on statutory receivables is recognised as revenue in accordance with the policy on Revenue from exchange transactions or the policy on Revenue from non-exchange transactions (Taxes and transfers), whichever is applicable.

Other charges

Where the entity is required or entitled in terms of legislation, supporting regulations, by-laws or similar means to levy additional charges on overdue or unpaid amounts, and such charges are levied, the entity applies the principles as stated in "Accrued interest" above, as well as the relevant policy on Revenue from exchange transactions or the policy on Revenue from non-exchange transactions (Taxes and transfers).

Impairment losses

The entity assesses at each reporting date whether there is any indication that a statutory receivable, or a group of statutory receivables, may be impaired.
In assessing whether there is any indication that a statutory receivable, or group of statutory receivables, may be impaired, the entity considers, as a minimum, the following indicators:
• Significant financial difficulty of the debtor, which may be evidenced by an application for debt counselling, business rescue or an equivalent.
• It is probable that the debtor will enter sequestration, liquidation or other financial re-organisation.
• A breach of the terms of the transaction, such as default or delinquency in principal or interest payments (where levied).
• Adverse changes in international, national or local economic conditions, such as a decline in growth, an increase in debt levels and unemployment, or changes in migration rates and patterns.
If there is an indication that a statutory receivable, or a group of statutory receivables, may be impaired, the entity measures the impairment loss as the difference between the estimated future cash flows and the carrying amount. Where the carrying amount is higher than the estimated future cash flows, the carrying amount of the statutory receivable, or group of statutory receivables, is reduced, either directly or through the use of an allowance account. The amount of the losses is recognised in surplus or deficit.
In estimating the future cash flows, an entity considers both the amount and timing of the cash flows that it will receive in future. Consequently, where the effect of the time value of money is material, the entity discounts the estimated future cash flows using a rate that reflects the current risk-free rate and, if applicable, any risks specific to the statutory receivable, or group of statutory receivables, for which the future cash flow estimates have not been adjusted.
An impairment loss recognised in prior periods for a statutory receivable is revised if there has been a change in the estimates used since the last impairment loss was recognised, or to reflect the effect of discounting the estimated cash flows.
Any previously recognised impairment loss is adjusted either directly or by adjusting the allowance account. The adjustment does not result in the carrying amount of the statutory receivable or group of statutory receivables exceeding what the carrying amount of the receivable(s) would have been had the impairment loss not been recognised at the date the impairment is revised. The amount of any adjustment is recognised in surplus or deficit.

Derecognition

The entity derecognises a statutory receivable, or a part thereof, when:
• the rights to the cash flows from the receivable are settled, expire or are waived;
• the entity transfers to another party substantially all of the risks and rewards of ownership of the receivable; or
• the entity, despite having retained some significant risks and rewards of ownership of the receivable, has transferred control of the receivable to another party and the other party has the practical ability to sell the receivable in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity:
o derecognise the receivable; and
o recognise separately any rights and obligations created or retained in the transfer.
The carrying amounts of any statutory receivables transferred are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. The entity considers whether any newly created rights and obligations are within the scope of the Standard of GRAP on Financial Instruments or another Standard of GRAP. Any difference between the consideration received and the amounts derecognised and, those amounts recognised, are recognised in surplus or deficit in the period of the transfer.

28 ACCOUNTING BY PRINCIPLES AND AGENTS

Identification

An agent is an entity that has been directed by another entity (a principal), through a binding arrangement, to undertake transactions with third parties on behalf of the principal and for the benefit of the principal.
A principal is an entity that directs another entity (an agent), through a binding arrangement, to undertake transactions with third parties on its behalf and for its own benefit.
A principal-agent arrangement results from a binding arrangement in which one entity (an agent), undertakes transactions with third parties on behalf, and for the benefit of, another entity (the principal).
Identifying whether an entity is a principal or an agent
When the entity is party to a principal-agent arrangement, it assesses whether it is the principal or the agent in accounting for revenue, expenses, assets and/or liabilities that result from transactions with third parties undertaken in terms of the arrangement.
The assessment of whether an entity is a principal or an agent requires the entity to assess whether the transactions it undertakes with third parties are for the benefit of another entity or for its own benefit.

Binding arrangement

The entity assesses whether it is an agent or a principal by assessing the rights and obligations of the various parties established in the binding arrangement.
Where the terms of a binding arrangement are modified, the parties to the arrangement re-assess whether they act as a principal or an agent.
Assessing which entity benefits from the transactions with third parties
When the entity in a principal-agent arrangement concludes that it undertakes transactions with third parties for the benefit of another entity, then it is the agent. If the entity concludes that it is not the agent, then it is the principal in the transactions.
The entity is an agent when, in relation to transactions with third parties, all three of the following criteria are present:
• It does not have the power to determine the significant terms and conditions of the transaction.
• It does not have the ability to use all, or substantially all, of the resources that result from the transaction for its own benefit.
• It is not exposed to variability in the results of the transaction.
Where the entity has been granted specific powers in terms of legislation to direct the terms and conditions of particular transactions, it is not required to consider the criteria of whether it does not have the power to determine the significant terms and conditions of the transaction, to conclude that is an agent. The entity applies judgement in determining whether such powers exist and whether they are relevant in assessing whether the entity is an agent.

Recognition

The entity, as a principal, recognises revenue and expenses that arise from transactions with third parties in a principal-agent arrangement in accordance with the requirements of the relevant Standards of GRAP.
The entity, as an agent, recognises only that portion of the revenue and expenses it receives or incurs in executing the transactions on behalf of the principal in accordance with the requirements of the relevant Standards of GRAP.
The entity recognises assets and liabilities arising from principal-agent arrangements in accordance with the requirements of the relevant Standards of GRAP.

29 RELATED PARTIES

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.
Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.
Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).
Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.
Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.
Management are those persons responsible for planning, directing and controlling the activities of the entity, including those charged with the governance of the entity in accordance with legislation, in instances where they are required to perform such functions.
Close members of the family of a person are those family members who may be expected to influence, or be influenced by that person in their dealings with the entity.
The entity is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the entity to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.
Where the entity is exempt from the disclosures in accordance with the above, the entity discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity's financial statements to understand the effect of related party transactions on its annual financial statements

	2020	2019
	R	R

1. GENERAL INFORMATION

Kou-Kamma Municipality (the municipality) is a local government institution in the Eastern Cape, and is one of eight local municipalities under the jurisdiction of the Sarah Baartman District Municipality. The addresses of its registered office and principal place of business are disclosed under "General Information" included in the Annual Financial Statements and in the introduction of the Annual Report. The principal activities of the municipality are disclosed in the Annual Report and are prescribed by the Municipal Finance Management Act (MFMA).

2. INVENTORIES

	2020 R	2019 R
Consumable Store	283 220	249 663
Water - at cost	72 759	65 104
Total Inventories	**355 979**	**314 767**

All inventory at year end is carried at cost.

3. RECEIVABLES FROM EXCHANGE TRANSACTIONS

	2020 R	2019 R
Service Debtors:	141 022 658	107 053 898
Electricity	491 844	573 815
Refuse	21 715 370	17 149 072
Sewerage	46 589 732	36 820 783
Water	71 099 909	52 384 442
Other Receivables	1 125 804	125 785
Housing	1 097 902	49 661
Loan instalments	27 902	76 124
Less: Provision for Impairment	(120 578 157)	(94 961 374)
Electricity	322 579	(274 613)
Water	(44 195 415)	(35 575 207)
Sewerage	(31 427 773)	(25 120 098)
Refuse	(14 970 527)	(11 321 039)
Housing rental	(56 346)	(269 750)
Loan instalments		(24 233)
Interest	(30 250 674)	(22 376 434)
Total Receivables from Exchange Transactions	**20 444 501**	**12 092 524**

The management of the municipality is of the opinion that the carrying value of Receivables approximate their fair values.

The fair value of debtors was determined after considering the standard terms and conditions of agreements entered into between the municipality and debtors as well as the current payment ratio's of the municipality's debtors.

3.1 Ageing of Receivables from Exchange Transactions

	2020 R	2019 R
Electricity		
Current (0 -30 days)	7 687	126 111
31 - 60 days	3 625	1 490
61 - 90 days	2 518	2 609
91 - 120 days	3 006	1 550
+120 days	318 660	318 015
Interest	156 348	124 040
Allowance for debt impairment	322 579	(274 613)
	814 423	**299 202**
Water		
Current (0 -30 days)	4 889 079	2 170 470
31 - 60 days	1 351 661	991 000
61 - 90 days	1 164 844	1 103 623
91 - 120 days	1 162 763	1 227 196
+120 days	46 529 954	35 567 803
Interest	16 001 609	11 324 350
Allowance for debt impairment	(44 195 415)	(35 575 207)
	26 904 494	**16 809 236**
Sewerage		
Current (0 -30 days)	1 690 238	979 217
31 - 60 days	502 736	473 518
61 - 90 days	498 765	470 697
91 - 120 days	496 237	469 177
+120 days	31 088 661	25 327 415
Interest	12 313 095	9 100 759
Allowance for debt impairment	(31 427 773)	(25 120 098)
	15 161 958	**11 700 685**

3. RECEIVABLES FROM EXCHANGE TRANSACTIONS

3.1 Ageing of Receivables from Exchange Transactions (continued)

	2020 R	2019 R
Refuse		
Current (0 -30 days)	830 389	510 129
31 - 60 days	262 554	238 293
61 - 90 days	257 930	234 982
91 - 120 days	251 972	229 549
+120 days	14 516 070	11 822 853
Interest	5 596 455	4 113 265
Allowance for debt impairment	(14 970 527)	(11 552 039)
	6 744 843	**5 597 033**
Housing rental		
Current (0 -30 days)	103 743	49 661
31 - 60 days	48 716	-
61 - 90 days	48 716	-
91 - 120 days	47 059	-
+120 days	744 672	-
Interest	104 995	
Allowance for debt impairment	(56 346)	(38 750)
	1 041 556	**10 911**
Loan instalments (and sundry)		
Current (0 -30 days)		2 913
31 - 60 days		-
61 - 90 days		-
91 - 120 days		-
+120 days	21 446	21 446
Interest	6 456	51 765
Allowance for debt impairment	-	(24 233)
	27 903	**51 892**
Interest: Exchange Transactions		
Interest	34 178 958	24 696 527
Allowance for debt impairment	(30 250 674)	(22 376 434)
	3 928 283	**2 320 092**

3.2 Reconciliation of the Provision for Impairment

	2020 R	2019 R
Balance at beginning of year	(83 284 870)	(85 332 078)
(Allowance raised) / reversal of allowance		(25 397 099)
Amounts written off as uncollectable	6 498 057	27 444 306
Balance at end of year	**(76 786 812)**	**(83 284 870)**

Provision for Impairment excludes VAT however Note 3.1 includes VAT.

Receivables from exchange transactions past due but not impaired

In determining the recoverability of debtors, the municipality has placed strong emphasis on verifying the indigent status of consumers. Provision for impairment of debtors has been made for all consumer balances outstanding based on the payment ratio over 12 months per service type. No further credit provision is required in excess of the Provision for Impairment.

Receivables from exchange transactions which are less than 3 months past due are not considered to be impaired. Individually significant debtors have been considered for impairment, in terms of GRAP 104, however none were impaired. At 30 June 2020 R7 802 583 (2019:R7 003 362) were past due but not impaired.

3.3 Ageing of impaired Receivables from Exchange Transactions

As at 30 June 2020	**Current**	**Past Due**			**Total**
	0 - 30 days	31 - 60 Days	61 - 90 Days	+ 90 Days	
All Receivables:					
Gross Balances	7 521 137	2 169 291	1 972 772.58	95 180 501	106 843 701
Interest				34 178 958	34 178 958
Less: Provision for Impairment				(120 578 157)	(120 578 157)
Net Balances	**7 521 137**	**2 169 291**	**1 972 773**	**8 781 301**	**20 444 501**

	2020	2019
	R	R

3.3 Ageing of impaired Receivables from Exchange Transactions (continued)

As at 30 June 2019	Current	Past Due			Total
	0 - 30 days	31 - 60 Days	61 - 90 Days	+ 90 Days	
All Receivables:					
Gross Balances	3 838 501	1 704 301	1 811 911	99 699 184	107 053 898
Less: Provision for Impairment		(3 468 799)		(91 492 575)	(91 492 575)
Net Balances	**3 838 501**	**(1 764 498)**	**1 811 911**	**8 206 609**	**15 561 322**

In determining the recoverability of a Receivable, the municipality considers any change in the credit quality of the Receivable from the date credit was initially granted up to the reporting date. Furthermore, the municipality has also placed a strong emphasis on verifying the indigent status of consumers. The concentration of credit risk is limited due to the customer base being spread over a large number of consumers and is not concentrated in any particular sector or geographical area. Accordingly, management believe that there is no further credit provision required in excess of the Provision for Impairment.

4. RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS

As at 30 June 2020	Gross Balances R	Provision for Impairment R	Net Balances R
Assessment Rates Debtors	49 527 128	(25 809 025)	23 718 102
Other receivables from non exchange transactions	19 906 260	(12 972 482)	6 933 778
Total Receivables from Non-exchange Transactions	**69 433 387**	**(38 781 507)**	**30 651 880**

As at 30 June 2019	Gross Balances R	Provision for Impairment R	Net Balances R
Assessment Rates Debtors	38 957 200	(15 119 944)	23 837 256
Other receivables from non exchange transactions	16 634 917	(12 608 093)	4 026 825
Total Receivables from Non-exchange Transactions	**55 592 117**	**(27 728 036)**	**27 864 080**

The municipality does not hold deposits or other security for its Receivables.

None of the Receivables have been pledged as security for the municipality's financial liabilities.

The management of the municipality is of the opinion that the carrying value of Receivables approximate their fair values.

Interest: Non-Exchange Transactions

	2020	2019
Interest	12 617 028	9 493 854
Allowance for debt impairment	(9 344 880)	(4 638 760)
	3 272 147	**4 855 094**

The fair value of Receivables was determined after considering the standard terms and conditions of agreements entered into between the municipality and National / Provincial Departments as well as Other Debtors. The current payment ratio's of Other Debtors were also taken into account for fair value determination.

4.1 Ageing of Receivables from Non-exchange Transactions

As at 30 June 2020	Current	Past Due			Total
	0 - 30 days	31 - 60 Days	61 - 90 Days	+ 90 Days	
Assessment Rates:					
Gross Balances	1 352 467	454 789	434 072	34 668 772	36 910 100
Less: Provision for Impairment				(16 464 145)	(16 464 145)
Net Balances	**1 352 467**	**454 789.29**	**434 071.87**	**18 204 627**	**20 445 955**
Other receivables from non exchange transactions:					
Gross Balances	19 906 260				19 906 260
Less: Provision for Impairment				(12 972 482)	(12 972 482)
Net Balances	**19 906 260**	**-**	**-**	**12 972 482**	**6 933 778**

4.1 Ageing of Receivables from Non-exchange Transactions (continued)

As at 30 June 2019	Current	Past Due			Total
	0 - 30 days	31 - 60 Days	61 - 90 Days	+ 90 Days	
Assessment Rates:					
Gross Balances	1 745 983	670 285	658 439	35 882 493	38 957 200
Less: Provision for Impairment				(15 119 944)	(15 119 944)
Net Balances	**1 745 983**	**670 285**	**658 439**	**20 762 549**	**23 837 256**
Other receivables from non exchange transactions:					
Gross Balances	16 583 864				16 583 864
Less: Provision for Impairment				(14 833 050)	(14 833 050)
Net Balances	**16 583 864**	**-**	**-**	**(14 833 050)**	**1 750 814**

	2020 R	2019 R
Other receivables from non exchange transactions:		
Current (0 -30 days)	19 906 260	10 807 595
	19 906 260	**10 807 595**
Rates		
Current (0 -30 days)	1 352 467	1 203 427
31 - 60 days	454 789	404 104
61 - 90 days	434 072	384 533
91 - 120 days	466 279	-
+120 days	34 202 493	27 471 282
Interest	12 617 028	9 493 854
Allowance for debt impairment	(16 464 145)	(15 119 944)
	33 062 983	**23 837 256**

4.2 Reconciliation of Provision for Impairment

	2020 R	2019 R
Balance at beginning of year	(15 119 944)	(13 301 788)
Impairment Losses recognised	(1 344 201)	(3 748 242)
Impairment Losses reversed	-	1 930 086
Balance at end of year	**(16 464 145)**	**(15 119 944)**

The Provision for Impairment on debtors exists predominantly due to the possibility that these debts will not be recovered. Loans and receivables were assessed individually and grouped together as financial assets with similar credit risk characteristics and collectively assessed for impairment.

The Provision for Impairment was calculated after grouping all the financial assets of similar nature and risk ratings and assessing the recoverability.

Receivables from non-exchange transactions which are less than 3 months past due are not considered to be impaired. Individually significant debtors have been considered for impairment, in terms of GRAP 104, however none were impaired. At 30 June 2020 R2 018 897(2019: R1 992 148) were past due but not impaired.

5. VAT

	2020 R	2019 R
Vat Receivable / Payable	**21 574 261**	**5 207 998**

VAT is payable on the cash basis. VAT is paid over to SARS only once payment is received from debtors.

6. CASH AND CASH EQUIVALENTS

	2020 R	2019 R
Current investment deposits	7 912 886	21 096 840
Bank Accounts	2 003 344	840 162
Total bank balances	**9 916 230**	**21 937 003**
Cash on hand	620	620
Total Bank, Cash and Cash Equivalents	**9 916 850**	**21 937 623**

The Municipality has the following bank and investment deposit accounts:

Restrictions relate to unspent conditional grants, only if the condition of the grant is met can transfers from cash be done.

Account number / description

	Bank statement balances		Cash book balances	
	30-Jun-20	30-Jun-19	30-Jun-20	30-Jun-19
Bank accounts				
ABSA Bank Ltd - Current Account (Primary account) - 405 280 5864	1 108 397	525 246	1 081 560	531 371
ABSA Bank Ltd - Call Account - 90 7906 4583	512 677	183 933	588 860	194 511
ABSA Bank Ltd - Savings Account - 91 0220 9606	332 924	87 614	332 924	114 280
ABSA Bank Ltd - Savings Account - 91 9914 8641	7 912 886	21 096 840	7 912 886	21 096 840
Total	**9 866 884**	**21 893 633**	**9 916 230**	**21 937 003**

6.1 Cash on hand

Cash Floats and Advances	620	620
Total Cash on hand in Cash Floats	**620**	**620**

The municipality did not pledge any of its Cash and Cash Equivalents as collateral for its financial liabilities.

7. OPERATING LEASE ASSET

Operating leases are recognised on the straight line basis as per requirement of GRAP 13. In respect of non-cancellable leases the following asset has been recognised:

Balance at the beginning of the year	49 748	69 308
Movement in operating lease asset	(21 952)	(19 560)
Balance at the end of the year	**27 796**	**49 748**

8. PROPERTY, PLANT AND EQUIPMENT

	2020			2019		
	Cost	Accumulated depreciation and impairment	Carrying value	Cost	Accumulated depreciation and impairment	Carrying value
Land	4 903 499	(276 788)	4 626 711	4 903 499	(276 788)	4 626 711
Buildings	6 152 145	(3 085 546)	3 066 599	6 152 145	(2 904 074)	3 248 071
Other property, plant and equipment	18 487 516	(13 024 315)	5 463 200	16 442 000	(10 816 679)	5 625 321
Infrastructure	416 468 743	(182 451 834)	234 016 910	404 437 383	(164 696 686)	239 740 696
Landfill sites	2 011 983	-	2 011 983	2 011 983	-	2 011 983
Community	62 083 978	(20 646 829)	41 437 149	62 083 978	(17 782 408)	44 301 570
Infrastructure - WIP	31 952 477	-	31 952 477	12 206 626	-	12 206 626
Total	**542 060 341**	**(219 485 312)**	**322 575 029**	**508 237 613**	**(196 476 635)**	**311 760 979**

Reconciliation of property, plant and equipment - 2020

	Opening	Additions	Disposals	Transfers	Depreciation	Impairment	Total
Land	4 626 711				-	-	4 626 711
Buildings	3 248 071				(181 473)	-	3 066 599
Other property, plant and equipment	5 625 321	914 327	641 111	-	(1 723 500)	5 941	5 463 200
Infrastructure	239 740 696			12 260 298	(18 387 704)	403 619	234 016 910
Landfill sites	2 011 983	-	-	-		-	2 011 983
Community	44 301 570				(2 864 421)	-	41 437 149
Infrastructure - WIP	12 206 626	32 006 150	-	(12 260 298)		-	31 952 477
	311 760 979	**32 920 477**	**641 111**	**0**	**(23 157 098)**	**409 559**	**322 575 029**

*** Included in Other Property, Plant and Equipment is 18 assets which will be auctioned by the municipality.*

Reconciliation of property, plant and equipment - 2019

	Opening	Additions	Disposals	Transfers	Depreciation	Impairment	Total
Land	4 903 499				-	(276 788)	4 626 711
Buildings	3 424 653				(176 581)	-	3 248 071
Other property, plant and equipment	4 266 513	2 578 132		147 258	(1 281 970)	(84 612)	5 625 321
Infrastructure	250 030 610			6 210 242	(16 356 696)	(143 459)	239 740 696
Landfill sites	716 437	1 295 546	-			-	2 011 983
Community	46 974 523				(2 255 695)	(417 258)	44 301 570
Infrastructure - WIP	5 359 287	13 204 838	-	(6 357 500)		-	12 206 626
	315 675 522	**17 078 516**	-	-	**(20 070 942)**	**(922 117)**	**311 760 979**

9. INTANGIBLE ASSETS

	2020			2019		
	Cost	Accumulated depreciation and impairment	Carrying value	Cost	Accumulated depreciation and impairment	Carrying value
Computer software	781 950	(738 844)	43 106	781 950	(686 008)	95 942

Reconciliation of intangible assets - 2020	Opening	Additions	Disposals/ Amortisation	Total
Computer software	95 942		(52 837)	43 106

Reconciliation of intangible assets - 2019	Opening	Additions	Amortisation	Total
Computer software	152 544		(56 602)	95 942

10. INVESTMENT PROPERTY

	2020			2019		
	Cost	Accumulated depreciation and impairment	Carrying value	Cost	Accumulated depreciation and impairment	Carrying value
Investment property - Land	24 773 446		24 773 446	24 773 446		24 768 446
Investment property - Buildings	869 937	(623 768)	246 170	869 937	(616 865)	258 072
	25 643 383	(623 768)	25 019 616	25 643 383	(616 865)	25 026 518

Reconciliation of investment property - 2020

	Opening	Disposal	Depreciation	Total
Investment property - Land	24 768 446			24 768 446
Investment property - Buildings	258 072		(6 902)	251 169
	25 026 518	-	(6 902)	25 019 615

Reconciliation of investment property - 2019

	Opening	Disposal	Depreciation	Total
Investment property - Land	24 773 446			24 768 446
Investment property - Buildings	273 689		(20 617)	258 072
	25 047 135	-	(20 617)	25 026 518

Details of property

No investment property has been given as security.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

	2020 R	2019 R
11. CONSUMER DEPOSITS		
Electricity and Water	104 975	104 588
Total Consumer Deposits	**104 975**	**104 588**

12. PROVISIONS		
Balance at beginning of Year	2 133 273	1 635 614
Increase/(Decrease) in Provision	9 582	497 659
Total Provisions	**2 142 855**	**2 133 273**

This provision is relating to workmans compensation. This has been estimated based on a return of earning calculation based on current financial information.

13. PAYABLES

13.1 PAYABLES FROM EXCHANGE TRANSACTIONS		
Trade payables	16 213 200	12 567 625
Other payables	4 488 279	3 273 156
Accrued Expenses	11 335 943	9 933 533
Total Payables	**32 037 423**	**25 774 314**

The average credit period on purchases is 30 days from the receipt of the invoice, as determined by the MFMA. No interest is charged for the first 30 days from the date of receipt of the invoice. Thereafter interest is charged in accordance with the credit policies of the various individual creditors that the municipality deals with. The municipality has financial risk policies in place to ensure that all payables are paid within the credit timeframe.

The management of the municipality is of the opinion that the carrying value of Creditors approximate their fair values.

The fair value of Creditors was determined after considering the standard terms and conditions of agreements entered into between the municipality and other parties.

14. UNSPENT CONDITIONAL GRANTS AND RECEIPTS		
DSRAC - Library Subsidy	342 675	-
MDRG - Municipal Disaster Relief Grant	651 677	-
DWAF - Department of Water Affairs Grant	1 316 383	16 917 968
MIG - Municipal Infrastructure Grant	3 953 482	4 414 643
INEP - Intergrated National Electrification Programme	1 440 463	-
DEDEA - Waste Management Grant	826 187	-
Total Unspent Conditional Grants	**8 530 866**	**21 332 611**

Grants spent during the financial year is in accordance with the conditions thereof.

15. EMPLOYEE BENEFIT LIABILITIES

Non current liability		
Post-retirement Health Care Benefits Liability	5 587 000	6 308 666
Provision for Long Service Awards	2 470 000	2 165 496
	8 057 000	**8 474 162**
Current portion of long term liability		
Post-retirement Health Care Benefits Liability	206 000	222 276
Provision for Long Service Awards	209 000	449 654
Bonus provision	1 314 868	1 389 482
	1 729 868	**2 061 412**

Provision for bonuses excludes performance bonuses of s57 employees. The provision only takes the 13th cheque of all other employees into account. The municipality has not paid out any performance bonusses for the past 5 years. The last two financials years performance assessments has not yet been completed. In addition to this the cashflow position of the municipality is very limited. It is based on these factors that management has decided not to provide for performance bonusses.

15. 1 Post-retirement Health Care Benefits Liability		
Balance at beginning of Year	6 530 942	6 262 727
Net actuarial losses/(gains)	-1 519 011	274 418
Current service cost	399 006	-
Increase due to Discounting	604 339	195 781
Benefits paid	(222 276)	(201 984)
Inclusion of Ineligible Members	-	-
Total Post-retirement Health Care Benefits Liability	**5 793 000**	**6 530 942**
Transfer to Current Provisions	(206 000)	(222 276)
Non-current portion of post-retirement Health Care Benefits Liability	**5 587 000**	**6 308 666**

The assumptions used are based on statistics and market data as at 30 June 2020. The following assumptions, in line with GRAP 25, have been used. Assumptions used at the reporting date:

Discount rates used	11%	9%
General inflation	5%	5%
Medical inflation	7%	7%
Real rate (GAP)	4%	2%

	2020	2019
	R	R

Discount rate assumption:
GRAP 25 stipulates that the choice of this rate should be derived from government bond yields consistent with the estimated term of the post-employment liabilities. However, where there is no deep market in government bonds with a sufficiently long maturity to match the estimated term of all the benefit payments, current market rates of the appropriate term should be used to discount shorter term payments, and the discount
rate for longer maturities should be estimated by extrapolating current market rates along the yield curve.
Consequently, a discount rate of 10.58% per annum has been used. The corresponding index-linked yield at this term is 4.71%. These rates do not reflect any adjustment for taxation. These rates were deduced from the interest rate data obtained from the Johannesburg Stock Exchange after the market close on 28 June 2020.

Health care cost inflation assumption
This assumption is required to reflect estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs (for example, due to technological advances or changes in utilisation patterns). Any assumption regarding future medical scheme contribution increases is therefore subjective. A health care cost inflation rate of 6.63% has been assumed. This is 1.50% in excess of expected CPI inflation over the expected term of the liability, namely 5.13%. A larger differential would be unsustainable, eventually forcing members to less expensive options. This implies a net discount rate of 3.70% which derives from ((1+10.58%)/(1+6.63%))-1.

Future inflation assumption:
The expected inflation assumption of 5.13% was obtained from the differential between market yields on index-linked bonds consistent with the estimated term of the liabilities (4.71%) and those of fixed interest bonds (10.58%) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0.50%). This was therefore determined as follows: ((1+10.58%-0.50%)/(1+4.71%))-1.
The next contribution increase was assumed to occur with effect from 1 January 2021.

Net discount rate:
A larger differential would be unsustainable, eventually forcing members to less expensive options. This implies a net discount rate of 3.70% which derives from ((1+10.58%)/(1+6.63%))-1.

Post-retirement mortality:
PA(90) ultimate table, adjusted down by one year of age, and a 1% annual compound mortality improvement from 2020. This means that we expect 1% less people to die next year than under the scenario without mortality improvement.

Family profile:
It has been assumed that female spouses will be four years younger than their male counterparts. Furthermore, we've assumed that 60% of eligible in-service members on a health care arrangement at retirement will have a spouse dependant on their medical aid. For current retiree members, actual medical aid dependants were used and the potential for remarriage was ignored.

Sensitivity analysis
The assumption which tends to have the greatest impact on the results is the rate of health care cost inflation relative to the discount rate.

Real rate of return	Current Assumption 0.46%	0.5% decrease in gap (0.04%)	0.5% increase in gap (0.96%)
Liability	5 793 000	5 503 350	6 082 650
Cost / (Saving)	-	289 650	(289 650)

Mortality	Current Assumption PA(90)-1	PA(90)	PA(90)-2
Liability	5 793 000	5 524 784	6 061 216
Cost / (Saving)	-	268 216	(268 216)

The amounts recognised in the Statement of Financial Position are as follows:

	2020	2019
Balance at the beginning of the year	6 530 942	2 264 472
Net actuarial (losses)/profits	-1 519 011	(25 230)
Current Service Cost	399 006	-
Interest cost	604 339	190 717
Benefits paid	(222 276)	(184 592)
Inclusion of eligible members	-	-
Total Recognised Benefit Liability	**5 793 000**	**2 245 367**

The amounts recognised in the Statement of Financial Performance are as follows:

	2020	2019
Interest cost	604 339	190 717
Actuarial losses / (gains)	(1 519 011)	(25 230)
Total Post-retirement Benefit included in Employee Related Costs (Note 23)	**-914 672**	**165 487**

					2020 R	2019 R
	2020 R	2019 R	2018 R	2017 R		
Present Value of Defined Benefit Obligation	5 793 000	2 245 367	2 245 367	2 264 472		
Deficit	**5 793 000**	**2 245 367**	**2 245 367**	**2 264 472**		

15.2 Post-retirement Long Service Awards liability

Balance at beginning of Year	2 615 150	2 076 192
Actuarial Gain	-7 968	579 786
Increase due to Discounting	194 690	162 729
Benefits paid	(449 654)	(411 480)
Current service cost	326 782	207 923
Balance at end of Year	**2 679 000**	**2 615 150**
Transfer to Current Provisions	(209 000)	(411 480)
Total Post-retirement Long Service Awards liability	**2 470 000**	**2 203 670**

The assumptions used are based on statistics and market data as at 30 June 2020. The following valuation assumptions are consistent with the requirements of GRAP 25.

Discount rate	7%	8%
General inflation	4%	6%
Salary inflation	7%	7%
Real rate (Gap)	3%	2%

Discount rate Assumption

GRAP 25 stipulates that the choice of this rate should be derived from government bond yields consistent with the estimated term of the employee benefit liabilities. However, where there is no deep market in government bonds with a sufficiently long maturity to match the estimated term of all the benefit payments, current market rates of the appropriate term should be used to discount shorter term payments, and the discount rate for longer maturities should be estimated by extrapolating current market rates along the yield curve. Consequently, a discount rate of 7.42% per annum has been used. The first step in the derivation of this yield is to calculate the liability-weighted average of the yields corresponding to the actual terms until payment of long service awards, for each employee. The 7.42% is then derived as the liability-weighted average of the yields derived in the first step. The corresponding liability-weighted index-linked yield is 3.80%. These rates do not reflect any adjustment for taxation. These rates were deduced from the interest rate data obtained from the JSE after the market close on 28 June 2020.

Future Inflation Assumption

This assumption is required to reflect the estimated growth in earnings of the eligible employees until retirement. It is important in that the LSA are based on an employee's earnings at the date of the award. This assumption is more stable relative to the growth in Consumer Price Index (CPI) than in absolute terms. In most industries, experience has shown, that over the long-term, earnings inflation is between 1.0% and 1.5% above CPI inflation.

Net Discount Rate

The expected inflation assumption of 3.01% was obtained from the differential between market yields on index-linked bonds (3.80%) consistent with the estimated terms of the liabilities and those of nominal bonds (7.42%) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0.50%). Therefore, expected inflation is determined as ((1+7.42%-0.50%)/(1+3.80%))-1.

Sensitivity analysis

The results of the valuation are dependent on the underlying assumptions made. The assumptions represent our best estimate of future experience. The actual cost of the subsidy will however be dependent on the actual experience.

Discount rate	Current Assumption 8.24%	Decrease of 0.5%: 7.39%	Increase of 0.5%: 8.39%
Liability	2 679 000	2 545 050	2 812 950
Cost / (Saving)	-	133 950	(133 950)

Retirement	Current Assumption Retire at average age 60	Retire at average age	Retire at average age 57
Liability	2 679 000	2 491 470	2 866 530
Cost / (Saving)	-	187 530	(187 530)

The amounts recognised in the Statement of Financial Position are as follows:

Balance at the beginning of the year	2 615 150	2 076 192
Current service costs	326 782	207 923
Interest cost	194 690	162 729
Benefits paid	(449 654)	(411 480)
Actuarial (losses) / gains	(7 968)	579 786
Total Recognised Benefit Liability	**2 679 000**	**2 615 150**

	2020	2019
	R	R
The amounts recognised in the Statement of Financial Performance are as follows:		
Current service cost	326 782	183 713
Interest cost	194 690	131 364
Actuarial (losses) / gains	(7 968)	238 888
Total Long service award included in Employee Related Costs (Note 23)	**513 504**	**553 965**

The history of experienced adjustments is as follows:

	2020	2019	2018	2017
	R	R	R	R
Present Value of Defined Benefit Obligation	2 679 000	2 615 150	2 076 192	1 666 208
Deficit	**2 679 000**	**2 615 150**	**2 076 192**	**1 666 208**

The municipality operates an unfunded defined benefit plan for all it's employees. Under the plan a long-service award is payable after 5 years of continuous service and every 5 years thereafter to employees. The provision is an estimate of the long service based on historical staff turnover. No other long-service benefits are payable to employees.

Actuarial valuations are performed annually. The most recent valuations of the present value of the defined benefit obligation was carried out at 30 June 2020 by C Weiss for Arch Actuarial, a member of the Actuarial Society of South Africa.

The defined benefit obligation and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

16. NON-CURRENT PROVISIONS

Reconciliation of non-current provisions
Environmental rehabilitation

Opening Balance	2 715 046	1 393 389
Increase in provision due to discounting	345 301	1 321 657
Total Non-Current Provision	**3 060 347**	**2 715 046**

Assumptions for landfill site provision
The most critical assumptions for estimating the life expectancy and rehabilitation costs of a landfill are:

- Available permitted airspace (typically expressed in cubic metres (m3). The sites will ultimately be used from one side of the fence to the other along the sites' perimeter. However, the final land use has not been determined for all these sites which would indicate the height that is useful for the sites hence the report assumes that, for the sake of calculations, the height of the sites will be between 3 and 5 meters from the lowest level reached by the waste.

- Airspace utilization factor commonly referred to as the in-place waste density (typically expressed as tons of waste placed per cubic meter of airspace consumed (tons/m3). The average density of the waste is between 0, 75 T/m3 to 1, 20 T/m3, depending on waste type and compaction efficiency, as prescribed by DWAF Minimum Requirements for Waste Disposal by Landfill (Second Edition, 1998). In this report it has been assumed that it is 0.75T/m.

- Waste acceptance rate (typically expressed in tons per year (tpy). Daily deposition of waste is about 10 Tons/per day (estimates given by municipal staff and there were no proper records kept).

- The sites listed below, have been in existence for the reporting period:

Joubertina
Krakeelrivier
Coldstream
Woodlands

- the methodology prescribed by DWAF assumes that landfilling is done instead of waste dumping.

17 ACCUMULATED SURPLUS

The Accumulated Surplus consists of the following Internal Funds and Reserves:

Accumulated Surplus / (Deficit) due to the results of Operations	374 945 683	341 754 771

18 PROPERTY RATES

Rates received		
Residential	2 797 733	2 948 773
Commercial	1 929 096	2 061 972
Agricultural	2 261 618	2 373 351
Government	5 805 408	3 912 197
Special rating areas	3 214 653	3 330 564
	16 008 510	**14 626 857**

18 PROPERTY RATES (continued)

	2020 R	2019 R
Valuations		
Residential	1 123 568 740	1 123 568 740
Commercial	417 973 000	417 973 000
State	499 686 990	499 686 990
Agriculture	2 104 841 199	2 104 841 199
Exempted properties	188 953 500	188 953 500
	4 335 023 429	**4 335 023 429**

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2016. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions. A 6.0 per cent increase in tariffs has been applied.

A general rate of 0.8967c is applied to property valuations to determine assessment rates. Rebates of 30% are granted to properties where municipality does not provide services

Rates are levied on an annual basis, with the option of paying the rates on a monthly basis.

19 FINES

	2020 R	2019 R
Traffic fines accrual	15 820 100	14 833 050
Traffic fines collected	3 587 798	5 325 609
	19 407 898	**20 158 659**

20 INCOME FROM AGENCY SERVICES

The following income is generated:

	2020 R	2019 R
Driver License Fees	2 360 294	1 218 910
Motor Vehicle licenses	619 995	493 550
Roadworthy certificates	2 559	10 078
	2 982 849	**1 722 538**

21 GOVERNMENT GRANTS AND SUBSIDIES RECOGNISED

	2020 R	2019 R
National Equitable Share	49 376 003	45 406 110
FMG - Finance Management Grant	2 435 000	1 970 000
EPWP - Expanded Public Works Programme	1 087 000	1 000 000
Sarah Baartman District Municipality: Environmental Health Subsidy	1 013 200	955 950
Sarah Baartman District Municipality	213 433	50 400
MIG - Municipal Infrastructure Grant: PMU	769 800	758 500
DSRAC - Library Subsidy	957 325	1 866 681
MIG - Municipal Infrastructure Grant	15 087 362	8 355 456
Provincial: Department of Housing Grant	-	1 101 359
DWAF - Department of Water Affairs Grant	22 008 581	6 843 282
INEP - Intergrated National Electrification Programme	109 538	-
National Treasury	-	455 185
DEDEA - Waste Management Grant	1 843 813	-
Sarah Baartman District Municipality: Fire Services	119 244	1 267 000
MDRG - Municipal Disaster Relief Grant	301 324	-
Total Government Grants and Subsidies	**95 321 622**	**70 029 922**

National: Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members. All registered indigents receive a monthly subsidy based on monthly billing, towards the consumer account, which is determined annually by council. All residential households receive 6kl water and some poor areas 50kWh electricity free every month.

FMG - Finance Management Grant

	2020 R	2019 R
Balance unspent at beginning of year	-	-
Current year receipts	2 435 000	1 970 000
Conditions met - transferred to Revenue	(2 435 000)	(1 970 000)
Balance at the end of the year	-	-

The Financial Management Grant is paid by National Treasury to municipalities to help implement the financial management reforms required by the Municipal Finance Management Act (MFMA), 2003.

Sarah Baartman District Municipality

	2020 R	2019 R
Balance unspent at beginning of year	-	-
Current year receipts	213 433	-
Transferred to Revenue	(213 433)	-
Other Adjustments/Refunds	-	
Balance at the end of the year	-	-

Grant purpose: To provide funding to support the strategic planning and IDP functions within the municipality.

MIG - Municipal Infrastructure Grant: PMU

	2020 R	2019 R
Balance unspent at beginning of year	-	
Current year receipts recognised	769 800	758 500
Transferred to Revenue	(769 800)	(758 500)
Balance at the end of the year	-	-

Grant purpose: This relates to the 5% PMU charge as part of the MIG allocation

	2020 R	2019 R
Sarah Baartman District Municipality: Environmental Health Subsidy		
Balance unspent at beginning of year	-	-
Current year receipts	1 013 200	955 950
Transferred to Revenue	(1 013 200)	(955 950)
Balance at the end of the year	**-**	**-**

Purpose of the subsidy : To provide environmental services on behalf of Sarah Baartman District Municipality.

	2020 R	2019 R
DWAF - Department of Water Affairs Grant		
Balance unspent at beginning of year	16 917 967	-
Current year receipts	10 000 000	23 761 249
Revereted to National Revenue Fund	-3 593 003	-
Transferred to Revenue	(22 008 581)	(6 843 282)
Balance at the end of the year	**1 316 383**	**16 917 967**

Grant purpose: The purpose of the grant is to assist drought stricken municipalities within the country

	2020 R	2019 R
DSRAC - Library Subsidy		
Balance unspent at beginning of year	-	566 681
Current year receipts	1 300 000	1 300 000
Transferred to Revenue	(957 325)	(1 866 681)
Balance at the end of the year	**342 675**	**-**

Grant purpose: The purpose of the grant is a subsidy for library services in the Kou-kamma district. The subsidy covers salaries, operation and maintenance costs.

	2020 R	2019 R
MIG - Municipal Infrastructure Grant		
Balance unspent at beginning of year	4 414 643	0
Current year receipts	14 626 200	14 411 500
Transferred to Revenue	(15 087 362)	(9 996 857)
Balance at the end of the year	**3 953 482**	**4 414 643**

Grant purpose: The purpose of the MIG grant is to provide capital funding for the upgrading, maintenance of the municipal infrastructure in order to provide basic services to the community.

	2020 R	2019 R
INEP - Intergrated National Electrification Programme		
Balance unspent at beginning of year	(0)	154 110
Current year receipts	1 550 000	-
Transferred to Revenue	(109 538)	(154 110)
Other Adjustments	-	-
Balance at the end of the year	**1 440 462**	**-0**

Grant Purpose: The purpose of the grant is to implement the Integrated National Electrification Programme (INEP) by providing capital subsidies to municipalities to address the electrification backlog of occupied residential dwellings, and the installation of bulk infrastructure.

	2020 R	2019 R
Housing rectification		
Balance unspent at beginning of year	-	1 101 359
Current year receipts	-	-
Transferred to Revenue	-	(1 101 359)
Balance at the end of the year	**-**	**-**

Grant purpose: To provide funding for the creation of sustainable RDP houses.

	2020 R	2019 R
National Treasury		
Balance unspent at beginning of year	-	-
Current year receipts	-	455 185
Transferred to Revenue	-	(455 185)
Balance at the end of the year	**-**	**-**

Grant purpose: To assits with the payment of Audit fees

	2020 R	2019 R
MDRG - Municipal Disaster Relief Grant		
Balance unspent at beginning of year	-	-
Current year receipts	953 000	-
Transferred to Revenue	(301 324)	-
Balance at the end of the year	**651 676**	**-**

Grant purpose: Covid 19 Relief fund to Municipalities

	2020 R	2019 R
DEDEA - Waste Management Grant		
Balance unspent at beginning of year	-	-
Current year receipts	2 670 000	-
Transferred to Revenue	(1 843 813)	-
Balance at the end of the year	**826 187**	**-**

Grant purpose: Waste management within the municipal boundaries

	2020 R	2019 R
EPWP - Expanded Public Works Programme		
Balance unspent at beginning of year	-	-
Current year receipts	1 087 000	1 000 000
Transferred to Revenue	(998 396)	(1 000 000)
Balance at the end of the year	**88 604**	**-**

Grant purpose: To provide employment to improve the quality of life of unemployed people through the appointment of them to do labour intensive projects for example: Road Maintenance and the maintenance of buildings; Maintenance of social infrastructure; Beautification and cleansing of the municipal areas.

22 SERVICE CHARGES

	2020 R	2019 R
Sale of Electricity	2 612 199	2 006 083
Sale of Water	16 031 514	13 806 626
Refuse Removal	3 375 374	3 012 669
Sewerage and Sanitation Charges	6 342 700	5 578 719
Total Service Charges	**28 361 788**	**24 404 097**
Attributable to:		
Continuing Operations	28 361 788	24 404 097
	28 361 788	**24 404 097**

The amounts disclosed above for revenue from Service Charges are in respect of services rendered which are billed to the consumers on a monthly basis according to approved tariffs. Included in the amounts disclosed in Free Basic Services provided to residents who qualify in terms of the approved policy.

23 RENTAL OF FACILITIES AND EQUIPMENT

	2020 R	2019 R
Operating Lease Rental Revenue:		
Halls	111 719	178 262
Houses	391 989	128 480
Facilities and equipment	**503 708**	**306 742**
Rental of equipment	-	-
Rental other	551 076	-
Total Rental of Facilities and Equipment	**1 054 784**	**306 742**
Attributable to:		
Continuing Operations	1 054 784	306 742
	1 054 784	**306 742**

Rental revenue earned on Facilities and Equipment is in respect of Non-financial Assets rented out.

24 INTEREST EARNED

	2020 R	2019 R
External Investments:		
Bank Account	114 420	120 513
Short-term deposits	691 313	471 362
Total Interest Earned	**805 733**	**591 875**
Outstanding Debtors:		
Debtors	16 933 380	9 942 277
Total Interest Earned Outstanding Debtors	**16 933 380**	**9 942 277**
Total	**17 739 113**	**10 534 152**

25 OTHER REVENUE

	2020 R	2019 R
Other Income from Non-exchange transactions		
Donations received	771 462	2 238 230
Actuarial gain	1 526 979	
Other income from exchange transactions		
Valuation certificates	8 729	19 535
Building plan fees	245 613	129 723
Land use application fees	23 464	3 620
Information fees	46 918	64 799
Cemetery fees	88 377	74 574
Sundry other fees	616 712	144 815
Total Other Revenue	**3 328 253**	**2 675 296**
Attributable to:		
Continuing Operations	3 328 253	2 675 296
	3 328 253	**2 675 296**

	2020	2019
	R	R

The amounts disclosed above for Other Revenue are in respect of services, other than described in Notes 18 to 23, rendered which are billed to or paid for by the users as the services are required according to approved tariffs.

26 EMPLOYEE RELATED COSTS

	2020 R	2019 R
Employee Related Costs - Salaries and Wages	35 715 506	29 638 097
Employee Related Costs - Contributions for UIF, Pensions and Medical Aids	7 762 975	6 990 513
Travel, Motor Car, Accommodation, Subsistence and Other Allowances	1 850 257	3 456 700
Housing Benefits and Allowances	356 849	252 649
Overtime Payments	4 310 727	4 218 505
Long-service awards	200 451	197 069
Total Employee Related Costs	**50 196 764**	**44 753 534**
Attributable to:		
Continuing Operations	50 196 764	44 753 534
	50 196 764	**44 753 534**

Included in Employee Related Costs is an amount of R5 166 950 (2018: R6 742 387) paid by the municipality to Defined Contribution Plans at rates specified by the rules of the plans. For the financial period ending 30 June 2020, contributions due in respect of the 2019/20 reporting period has been accounted for and paid over to the plans accordingly.

Remuneration of Section 57 Employees:

Remuneration of the Municipal Manager (Kate P.M)	2020 R	2019 R
Annual Remuneration	969 583	935 708
Car and Other Allowances	274 108	274 108
Company Contributions to UIF, skills	13 748	13 403
Total	**1 257 440**	**1 223 219**

The Municipal Manager Mr Kate P.M. was appointed 11 April 2017

Remuneration of the Chief Financial Officer (Venter N.)	2020 R	2019 R
Annual Remuneration	892 035	849 323
Car and Other Allowances	144 000	144 000
Company Contributions to UIF, skills	11 857	11 430
Total	**1 047 892**	**1 004 753**

The contract of the Chief Financial Officer Ms Venter N. ended 31 November 2016. The contract was renewed, appointed date 27 January 2017

Remuneration of the Manager: Corporate Services (Tom T.)	2020 R	2019 R
Annual Remuneration	523 083	526 925
Car and Other Allowances	512 952	440 952
Company Contributions to UIF, skills	11 665	11 393
Total	**1 047 700**	**979 270**

The Manager: Corporate Services Ms Tom T. was apointed 1 December 2017

Remuneration of the Manager: Director: Community & Technical Services (Rockman M.)	2020 R	2019 R
Annual Remuneration	204 856	542 266
Car and Other Allowances •	97 957	135 000
Company Contributions to UIF, Medical and Pension Funds	3 521	7 841
Total	**306 334**	**685 107**

The Manager: Technical and Community services was appointed on the 01 Ocotober 2018. He was terminated on the 08 October 2019. He is deceased.

	2020 R	2019 R
Employee costs		
Employee related costs	50 196 764	44 753 534
Directors	3 659 367	3 892 349
	53 856 131	**48 645 883**

27 REMUNERATION OF COUNCILLORS

	2020 R	2019 R
Mayor	854 441	846 635
Councillors	2 580 626	2 433 578
Councillors' allowances	408 000	440 711
Total Councillors' Remuneration	**3 843 067**	**3 720 924**

	2020 R	2019 R
Councillors' remuneration		
Goliath. G.G.M.	298 659	288 940
Herman F.E.	298 659	288 759
Jansen J.	299 296	290 724
Krige J	298 850	288 940
Plaatjies J.	298 659	288 759
Pullen H.P.	298 659	288 759
Rheeders C	299 296	290 724
Strydom F	298 850	288 940
Smit K	298 850	288 940
Yake F.J.	298 659	288 759
	2 988 434	**2 892 245**

In-kind Benefits
The Executive Mayor is full-time and is provided with an office and secretarial support at the cost of the Council.

The councillor salaries, allowances and benefits are within the upper limits of the framework envisaged in section 219 of the Constitution

28 DEPRECIATION AND AMORTISATION

	2020 R	2019 R
Depreciation: Property, Plant and Equipment	20 801 982	20 079 676
Amortisation: Intangible Assets	52 837	56 602
Depreciation: Investment Property	6 902	6 883
Total Depreciation and Amortisation	**20 861 721**	**20 143 161**
Attributable to:		
Continuing Operations	20 861 721	20 143 161
	20 861 721	**20 143 161**

29 FINANCE COSTS

	2020 R	2019 R
Suppliers	109 642	168 662
Finance Charges	1 254 333	549 728
Creditors Overdue	**1 363 975**	**718 390**
Attributable to:		
Continuing Operations	1 363 975	718 390
	1 363 975	**718 390**

30 BULK PURCHASES

	2020 R	2019 R
Electricity	4 291 401	3 604 695
Water	43 826	19 911
Total Bulk Purchases	**4 335 227**	**3 624 606**

31 CONTRACTED SERVICES

	2020 R	2019 R
Professional Fees	1 471 987	3 390 404
Security Services	1 575 014	1 481 325
General contract expenses	4 917 485	5 172 330
Total Contracted Services	**7 964 486**	**10 044 059**
Attributable to:		
Continuing Operations	7 964 486	10 044 059
	7 964 486	**10 044 059**

32 GENERAL EXPENSES

Included in General Expenses are the following:

	2020 R	2019 R
Advertising	557 493	512 019
Audit Fees - External	3 022 704	2 013 170
Bank Charges	463 863	459 494
Cleaning	301 188	59 539
Consumables	2 569 857	1 696 336
Electricity purchases	4 291 781	4 013 567
Refreshments	4 000	522
Fuel and oil	1 118 339	1 418 719
Insurance	837 743	267 556
Licence cards & fees - vehicles	74 411	56 780
Other expenses	5 300 411	2 379 002
Other rentals	300 795	431 340
Postage	42 150	30 419
Printing and stationery	238 167	227 081
Rental of office equipment	464 665	741 340
SPU programs		11 900
Subscription and publications		2 915
Telephone cost	2 009 384	1 643 301
Materials and stores		228 228
Travel and subsistence	680 397	696 601
Total General Expenses	**22 277 348**	**16 889 829**

33 CASH GENERATED BY OPERATIONS

	2020 R	2019 R
(Deficit) / Surplus for the Year	33 190 911	-2 489 953
Adjustment for:		
Depreciation and Amortisation	20 861 721	20 143 161
Losses / (Gains) on Disposal of Property, Plant and Equipment	-418 916	934 409
Movements in retirement benefit assets and liabilities	417 162	-748 707
Movements in provisions	321 962	-903 493
Changes in working capital:		
(Increase) / Decrease in Inventories	-41 213	-48 592
(Increase) / Decrease in receivables from exchange transactions	-8 351 977	763 320
(Increase) / Decrease in other receivables from non-exchange transactions	-2 787 799	-2 741 393
Increase / (Decrease) in payables from exchange transactions	6 263 108	970 275
(Increase)/Decrease in lease recievables	21 952	19 560
Increase / (Decrease) in VAT Recievable	16 366 263	2 496 399
Increase / (Decrease) in unspent conditional grants and receipts	-12 801 745	19 510 461
Cash generated by / (utilised in) Operations	**16 948 397**	**37 905 448**

	2020	2019
	R	R
34 UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE		
34.1 Unauthorised Expenditure		
Opening balance	18 040 699	18 040 699
Prior year approval (written off by council)	-1 914 771	-
2019/20 Unauthorised expenditure	-	-
	16 125 928	**18 040 699**
34.2 Fruitless and Wasteful Expenditure		
Opening balance	5 263 982	4 974 445
Prior year approval (written off by council)	-3 998 263	-
Fruitless and Wasteful Expenditure current year	289 020	289 537
	1 554 739	**5 263 982**
34.3 Irregular Expenditure		
Opening balance	127 236 129	119 583 468
Prior year approval (written off by council)	-97 380 903	-
Contravention of the supply chain policy	290 305	7 652 661
	30 145 531	**127 236 129**

Irregular expenditure to be reported to National Treasury as prescribed by section 170 of the MFMA

	R
2019/20 Financial year	-
2018/19 Financial year	7 652 661
Total	**7 652 661**

35 CORRECTION OF PRIOR PERIOD ERROR

The correction of the errors / change in accounting policies resulted in adjustments as follows:

35.1 Trade Payables	
Correction of creditors	
Adjustment against statement of financial performance	-236 762
Adjustments affecting the statement of financial position	236 762
Decrease in creditors	-
This relates to inaccurate accruals for creditors in the 2019/20 financial year	
35.2 Provisions	
Workmans Compensation	
Adjustments affecting the statement of financial position	329 446
Adjustment against statement of financial performance	-329 446
Adjustments affecting the statement of financial position	-
This relates to correction of workmans compensation	
35.30 Trade receivables from Exchange transaction	
Correction of debtors	
Adjustments affecting the statement of financial position	-22 519
Adjustment against statement of financial performance	22 519
Increase in Community Assets	-
This relates to donated assets not capitalised during the 2016/17 financial year	

	2020	2019
	R	R
36 Material losses		
Distribution losses on electricity	1 201 341	1 582 970
Distribution losses on water	11 497 567	6 687 694
	12 698 908	**8 270 664**
Accounted water losses :	Litres per annum	Litres per annum
Volume Distributed (kl)	1 533 102	1 191 505
Volume Billed(kl)	625 778	-747 435
Non-Revenue Water (kl)	**2 158 880**	**444 070**

Methodology used

The water loss calculations were based on the readings of the bulk water meters on the main line feeding into the distribution systems from the reservoirs and then the end users meters.

In determining the water loss the following where considered:

The methodology is based on the logical intellect or arithmetic principle that a product metered at initial point of the sealed pipeline will be equal to the amount of product metered at the end of the same pipeline

On that case, the volume of water from reservoir metered on the outlet pipe A distributing to point B, C and D is expected to be equals to the sum of water metered at points B, C and D. The difference is therefore considered a loss as it is not been accounted for.

In the absence of meters at point B, C and D, the total volume of water distributed at point A (Reservoir outlet) is considered water loss as it is not accounted for on the distribution mains.

The value of water is based on the expenditure incurred in relation to the volume of water purified from all systems inclusive of bulk water purchases for the entire financial year.

Such information is used to determine the value of water per specific volume. The determined total amount of water unaccounted for is then converted in to rand value based.

	2020	2019
37 Audit fees		
Opening balance	2 472 736	1 227 210
Current year audit fee	3 936 833	3 384 691
Current year Interest	295 528	155 645
Interest paid	-2 379 253	-500 156
Write-off	-530 385	-1 794 654
	3 795 460	**2 472 736**

The balance unpaid represents the audit fees that could not be paid due to financial constraints endured by the municipality.

	2020	2019
38 PAYE and UIF		
Current year payroll deductions	6 948 607	6 974 529
Amount paid - current year	-6 236 452	-6 326 809
	712 154	**647 720**
39 Pension and medical aid deductions		
Current year payroll deductions and Council contributions	11 355 442	9 827 824
Amount paid - current year	-10 356 740	-8 988 858
	998 701	**838 967**

40 CAPITAL COMMITMENTS

The municipality had the following capital commitments at year-end.

	2020	2019
Commitments in respect of Capital Expenditure:		
- Approved and Contracted for:-	**19 376 415**	**16 725 737**
Infrastructure	19 376 415	16 725 737
Total Capital Commitments	**19 376 415**	**16 725 737**
This expenditure will be financed from:		
Government Grants	19 376 415	16 725 737
	19 376 415	**16 725 737**

41 LEASES

At the Reporting Date the municipality had outstanding commitments under Non-cancellable Operating Leases for Property, Plant and Equipment, which fall due as follows:

	2020	2019
Operating leases - Municipality as lessee (expense)		
Minimum lease payments due		
- within one year	950 905	249 460
- in second to fifth year inclusive	357 117	354 482
- later than five years	-	-
	1 308 021	**603 942**

The Municipality has leased portion 250 of Krakeelrivier no, 314 to Strydom Vrugteboerdery for R3,500 per annum with an escalation of 10%. The lease is for an indefinite period.

The municipality has entered into a lease agreement with Telkom to rent the ISDN 30 PRA for a period of 5 years at R2857.58 per month.

	2020	2019
	R	R

Operating leases - Municipality as lessee (expense) (continued)

The municipality has entered into a lease agreement with Telkom to rent the TI-DIS Gold Access Service for a period of 3 years at R16 434.86 per month.

The municipality has entered into a lease agreement with Telkom for the rental of a VPN Supreme solution for a period of 3 years at R43 161.34 per month.

The Municipality entered into a lease agreement with BJ Kemp, for the use of fountainwater and drainage water on Farm Krakeel nr. 114, Joubertina for R4000 pa, with 8% escalation each year. The lease is for a five year period and expires on 30 January 2016.

Operating lease payments represent rentals payable by the municipality for certain of its office equipment.
The municipality has entered into an operating lease agreement with Antemax Equipment CC for the rental of 7 bizhub machines and a binder for a period of three (3) years. The lease period commenced in May 2015.

The following restrictions have been imposed on the municipality in terms of the lease agreements on office equipment:
(i) The equipment shall remain the property of the lessor;
(ii) The lessee shall not sell, sublet, cede, assign or delegate any of it's rights or obligations on the office equipment; and

(iii) The equipment shall be returned in good order and condition to the lessor upon termination of the agreement.

Operating leases - Municipality as lessor (income)

	2020	2019
Minimum lease payments due		
- within one year	229 820	258 187
- in second to fifth year inclusive	797 530	756 500
- later than five years	171 028	82 080
	1 198 378	**1 096 767**

The municipality has entered into a lease agreement with Ilitha Creche for the use of a municipal building at R5 per month, no escalation for 9years and 11months.

The municipality has entered into a lease agreement with The Heights Tea Estate for the use of a municipal property at R10 per month, no escalation for 9years and 11months.

The Municipality has entered into a lease agreement with Atlas Tower Property Limited (MTN) who is a licensed operator of an electronic communications network.
MTN (Pty) Ltd is leasing the Erf 77 in Coldtream. The initial lease period is 9 years and 11 months at R10 260 per month. The lease expires on 28 February 2026

The municipality has entered into a lease agreement with the Stockfarmers Association for the use of municipal land at R300 per month, no escalation for 9years and 11months.

The municipality has entered into a lease agreement with Cell C (Pty) Ltd who is a licensed operator of an electronic communications network. Cell C (Pty) Ltd is leasing a site for the installation of certain infrastructure assets required for the operation of its network. The initial lease period is 9 years and 11 months with two renewal options of 5 years each. There are no contingent rentals and no subleases.

The Municipality has entered into a lease agreement with Vodacom PTY (Pty) Ltd who is a licensed operator of an electronic communications network.
Vodacom (Pty) Ltd is leasing a site for the installation of certain infrastructure assets required for the operation of its network. The initial lease period is 9 years and 11 months with two renewal options of 5 years each. There are no contingent rentals and no subleases.

The Municipality has entered into a lease agreement with Vodacom PTY (Pty) Ltd who is a licensed operator of an electronic communications network.
Vodacom (Pty) Ltd entered into a lease agreement in order to install antennae and equipment on the building situated at Joubertina. The lease contract expired in 2005

The Municipality has entered into a lease agreement with Sentech Soc Ltd to hire a portion of certain property situated off R62 in Joubertina and the unimpeded use of the access road for the purpose of site access.
Interest rate increase is in line with a published index("increases in line with CPI").

The municipality entered into a lease agreement with the Electroral Commission (IEC) for the rental of a vacant land, at R3000 per month inclusive of VAT with an annual escalation of 5% for a period of 9 years and 11 months

The municipality has entered into a lease agreement with Wild to Mild (Pty)Ltd for the use of a municipal property at R250 per month, no escalation for 5 years.

	2020	2019
	R	R

42 FINANCIAL INSTRUMENTS

Categories of financial instruments

In accordance with GRAP 104.13 the Financial Assets of the municipality are classified as follows:

	At amortised cost	Total
Financial Assets - 2020		
In accordance with GRAP 104.13 the Financial Assets of the municipality are classified as follows:		
Receivables from Exchange Transactions	20 444 501	20 444 501
Receivables from Non-exchange Transactions	30 651 880	30 651 880
Cash and Cash Equivalents	9 916 850	9 916 850
	61 013 231	**61 013 231**
Financial Liabilities - 2020		
Payables from exchange transactions	32 037 423	32 037 423
Customer deposits	104 975	104 975
Unspent conditional grants	8 530 866	8 530 866
	40 673 264	**40 673 264**
Financial Assets - 2019		
Receivables from Exchange Transactions	12 092 524	12 092 524
Receivables from Non-exchange Transactions	27 886 600	27 886 600
Cash and Cash Equivalents	21 937 623	21 937 623
	61 916 746	**61 916 746**
Financial Liabilities - 2019		
In accordance with GRAP 104.13 the Financial Liabilities of the municipality are classified as follows:		
Payables from exchange transactions	26 011 076	26 011 076
Customer deposits	104 588	104 588
Unspent conditional grants	21 332 611	21 332 611
	47 448 276	**47 448 276**

Risk management

Financial risk management

The Accounting Officer has overall responsibility for the establishment and oversight of the municipality's risk management framework. The municipality's risk management policies are established to identify and analyse the risks faced by the municipality, to set appropriate risk limits and controls and to monitor risks and adherence to limits.

Due to the largely non-trading nature of activities and the way in which they are financed, municipalities are not exposed to the degree of financial risk faced by business entities. Financial Instruments play a much more limited role in creating or changing risks that would be typical of listed companies to which the GRAP's mainly apply. Generally, Financial Assets and Liabilities are generated by day-to-day operational activities and are not held to manage the risks facing the municipality in undertaking its activities.

The Department Financial Services monitors and manages the financial risks relating to the operations through internal policies and procedures. These risks include interest rate risk, credit risk and liquidity risk. Compliance with policies and procedures is reviewed by the internal auditors on a continuous basis, and annually by external auditors. The municipality does not enter into or trade financial instruments for speculative purposes.

Internal audit, responsible for initiating a control framework and monitoring and responding to potential risk, reports periodically to the municipality's audit committee, an independent body that monitors the effectiveness of the internal audit function.

Further quantitative disclosures are included throughout these Annual Financial Statements.

42.1 Significant Risks

It is the policy of the municipality to disclose information that enables the user of its Annual Financial Statements to evaluate the nature and extent of risks arising from Financial Instruments to which the municipality is exposed on the reporting date.

The municipality has exposure to the following risks from its operations in Financial Instruments:
- Market Risk.
- Liquidity Risk; and
- Credit Risk;

Risks and exposures are disclosed as follows:

Market Risk

Market Risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the municipality's income or the value of its holdings in Financial Instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

	2020	2019
	R	R

Liquidity Risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an on going review of future commitments and credit facilities.

The municipality intends to pay creditors within 30 days.

Credit Risk

Credit Risk is the risk of financial loss to the municipality if a customer or counterparty to a Financial Instrument fails to meet its contractual obligations and arises principally from the municipality's receivables from customers and investment securities.

42.2 Market Risk

The municipality's activities expose it primarily to the financial risks of changes in interest rates. No formal policy exists to hedge volatilities in the interest rate market.

There has been no change to the municipality's exposure to market risks or the manner in which it manages and measures the risk.

42.3 Liquidity Risk

Liquidity Risk is the risk that the municipality will encounter difficulty in meeting the obligations associated with its Financial Liabilities that are settled by delivering cash or another financial asset. The municipality's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the municipality's reputation.

Liquidity Risk is managed by ensuring that all assets are reinvested at maturity at competitive interest rates in relation to cash flow requirements. Liabilities are managed by ensuring that all contractual payments are met on a timeous basis and, if required, additional new arrangements are established at competitive rates to ensure that cash flow requirements are met.

42.4 Foreign Currency Risk Management

The municipality's activities do not expose it to the financial risks of foreign currency and therefore has no formal policy to hedge volatilities in the interest rate market.

42.5 Interest Rate Risk Management

Interest Rate Risk is defined as the risk that the fair value or future cash flows associated with a financial instrument will fluctuate in amount as a result of market interest

Potential concentrations of interest rate risk consist mainly of variable rate deposit investments, long-term receivables, consumer debtors, other debtors, bank and cash balances.

The municipality limits its counterparty exposures from its money market investment operations by only dealing with Absa Bank. No investments with a tenure exceeding twelve months are made.

Consumer Debtors comprise of a large number of ratepayers, dispersed across different industries and geographical areas. Consumer debtors are presented net of a provision for impairment.

In the case of debtors whose accounts become in arrears, it is endeavoured to collect such accounts by "levying of penalty charges", "demand for payment", "restriction of services" and, as a last resort, "handed over for collection", whichever procedure is applicable in terms of Council's Credit Control and Debt Collection Policy. Consumer Deposits are increased accordingly.

Long-term Receivables and Other Debtors are individually evaluated annually at Reporting date for impairment or discounting. A report on the various categories of debtors is drafted to substantiate such evaluation and subsequent impairment / discounting, where applicable.

The municipality is not exposed to credit interest rate risk as the municipality has no borrowings.

The municipality's exposures to interest rates on Financial Assets and Financial Liabilities are detailed in the Credit Risk Management section of this note.

Interest Rate Sensitivity Analysis

The sensitivity analysis has been determined based on the exposure to interest rates at the Statement of Financial Position date. The analysis is prepared by averaging the amount of the investment at the beginning of the financial year and the amount of the investment at the end of the financial year. A 100 basis point increase or decrease was used, which represents management's assessment of the reasonably possible change in interest rates. The short and long-term financial instruments at year-end with variable interest rates are set out below:

Cash and Cash Equivalents

If interest rates had been 100 basis points higher / lower and all other variables were held constant, the municipality's:
Surplus for the year ended 30 June 2020 has increased by R 37 554 489. This is mainly attributable to the municipality's exposure to interest rates on its variable rate investments.
Bank balance held with Absa bank Limited is R 1 108 397 (2018: R525 246).

	2020	2019
	R	R

42.6 Credit Risk Management

Credit Risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the municipality. The municipality has a sound credit control and debt collection policy and obtains sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The municipality uses its own trading records to assess its major customers. The municipality's exposure of its counterparties are monitored regularly.

Potential concentrations of credit rate risk consist mainly of variable rate deposit investments, long-term receivables, consumer debtors, other debtors, bank and cash balances.

Investments/Bank, Cash and Cash Equivalents

The municipality limits its counterparty exposures from its money market investment operations (financial assets that are neither past due nor impaired) by only dealing with Absa Bank. No investments with a tenure exceeding twelve months are made.

Trade and Other Receivables

Trade and Other Receivables are amounts owed by consumers and are presented net of impairment losses. The municipality has a credit risk policy in place and the exposure to credit risk is monitored on an on going basis. The municipality is compelled in terms of its constitutional mandate to provide all its residents with basic minimum services without recourse to an assessment of creditworthiness. Subsequently, the municipality has no control over the approval of new customers who acquire properties in the designated municipal area and consequently incur debt for rates, water and electricity services rendered to them.

The municipality limits this risk exposure in the following ways, in addition to its normal credit control and debt management procedures:

- The application of section 118(3) of the Municipal Systems Act (MSA), which permits the municipality to refuse connection of services whilst any amount remains outstanding from a previous debtor on the same property;
- The consolidation of rates and service accounts, enabling the disconnecting services for the non-payment of any of the individual debts, in terms of section 102 of the MSA;
- The requirement of a deposit for new service connections, serving as guarantee and are reviewed annually;
- Encouraging residents to install water management devices that control water flow to households, and/or prepaid electricity meters.

There were no material changes in the exposure to credit risk and its objectives, policies and processes for managing and measuring the risk during the year under review. The municipality's maximum exposure to credit risk is represented by the carrying value of each financial asset in the Statement of Financial Position, without taking into account the value of any collateral obtained. The municipality has no significant concentration of credit risk, with exposure spread over a large number of consumers, and is not concentrated in any particular sector or geographical area.

The municipality establishes an allowance for impairment that represents its estimate of anticipated losses in respect of trade and other receivables.

Payment of accounts of consumer debtors, who are unable to pay, are renegotiated as an on going customer relationship in response to an adverse change in the circumstances of the customer in terms of the Credit Control and Debt Collection Policy.

Long-term Receivables and Other Debtors are individually evaluated annually at reporting date for impairment or discounting. A report on the various categories of debtors is drafted to substantiate such evaluation and subsequent impairment / discounting, where applicable.

The municipality does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The municipality defines counterparties as having similar characteristics if they are related entities. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings.

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents and receivables. The municipality only deposits cash with major banks with high quality credit standing.

Financial assets exposed to credit risk at year end were as follows:

	2020	2019
Trade and other receivables from exchange transactions	20 444 501	12 862 726
Cash and cash equivalents	9 916 850	1 484 723
	30 361 351	**14 347 449**

	2020	2019
	R	R

43 IN-KIND DONATIONS AND ASSISTANCE

The municipality received no in -kind donations and assistance during the 2018/19 financial year, with the exception of assets transferred from Sarah baartman Disctrict Municipality and the Department of Sport and Recreational Services

44 CONTINGENT LIABILITIES

SAMWU obo Julius & Floors

	2020	2019
Employees instituted legal proceedings against the municipality with regards to changes in working conditions 75% posibility that this matter will be successful. Council will not benefit from any revenue/ refund	643 630	643 630

Tamboer & Others

	2020	2019
These employees are employed by the municipality and are claiming benefits which according to them are due and payable, Officials matter incorporated in this case, outcome per official will vary. The amount is unknown	531 460	531 460
Estimated Legal costs associated with these pending cases	150 000	150 000

45 RELATED PARTY TRANSACTIONS

All Related Party Transactions are conducted at arm's length, unless stated otherwise.

45.1 Interest of Related Parties

Councillors and/or management of the municipality have relationships with the municipality, which is limited to their employment:

Name of Related Person	Designation	
Members of key management		
Municipal Manager	P.M. Kate	Appointed 11 April 2017
Chief Financial Officer	N Venter	Appointed 27 January 2017 on a new contract
Manager: Corperate Services	T. Tom	Appointed 1 December 2017
Mayor	Vuso MS	
Councillors	Goliath. G.G.M.	
	Herman F.E.	
	Krige J	
	Plaatjies J.	
	Pullen H.P.	
	Smith K	
	Strydom F.	
	Yake F.J.	
	Reeders C.	
	Jansen J.	

Compensation to key management as per note 25

46 PRIVATE PUBLIC PARTNERSHIPS

The municipality was not a party to any Private Public Partnerships during the year under review.

	2020	2019
	R	R

47 ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT

47.1 Non-Compliance with the Municipal Finance Management Act

Instance of non-compliance with the MFMA relate to Irregular, Fruitless and Wasteful Expenditure.

47.2 Deviation from, and ratification of minor breaches of, the Procurement Processes

In terms of section 39 of the Municipal Supply Chain Management Regulations approved by the council, any deviation from the Supply Chain Management Policy needs to be approved / condoned by the Municipal Manager, noted by Council and bids where the formal procurement processes could not be followed must be noted in the Annual Financial Statements.

The following deviations from the tender stipulations in terms of the municipality's Supply Chain Management Policy were ratified by the Municipal Manager and reported to Council:

Year 2019/20

CLASSIFICATION OF DEVIATIONS IN TERMS OF SECTION 36 OF THE SCM REGULATIONS	NUMBER OF INCIDENTS	AMOUNTS
Impractical to obtain three quotations	197	R 2 855 467
Emergency	46	R 495 795
		R 3 351 261

48 GOING CONCERN ASSESSMENT

Management considered the following matters relating to the Going Concern:

There are a number of other events and conditions that individually or collectively may cast significant doubt on the going concern assumption and place the municipality's financial sustainability under threat. These indicators include amongst others:

Certain suppliers only provide services on the cash basis now due to problems receiving payments in the past.

The low debtors collection rate

Economic impact of Covid 19, which affects the ability of consumers to pay their municipal accounts

Due to cash flow challenges the municipality is unable to pay creditor within 30 days.

Taking the aforementioned into account, management has prepared the Annual Financial Statements on the Going Concern Basis as it is off the opinion that with the current belt-tightening processes and revenue collection programme, funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business. In addition to this, their is no indication that there is political will to amalgamate or discontinue operations of the municipality.

The Municipality has, despite the COVID- 19 Lockdown and adopting numerous COVID-19 protocols to avoid the spread of the virus, continued to provide essential services to the various communities in the municipal area.

Considering the uncertainty of how the COVID-19 pandemic will resolve itself and long-term financial plan, the municipality has adopted the following mitigating strategies:
• Monitor the cash flow daily and limit spending to the actual cash inflow, irrespective of budget.
• Reduce the capital investment programme annually, for the next three financial years, to the level of capital investment funded by capital grants only.
• Avoid giving rate payers and customers relief measures that will significantly reduce the cash inflow to the municipality. Where relief is granted, it should be in the form of delayed payments granted and no debt forgiveness should be considered.
• Be cognisant of the highly sensitive impact collection rate has on liquidity of the municipality and prioritise decisions and actions that will support and strengthen the collection rate, without a loss of income or undue increases in expenditure.
Based on the long-term liquidity forecasts and projections, management believe that there is a reasonable basis to conclude that the municipality will be able to continue with its service delivery operations and to meet its financial commitments in the medium and long term.
The municipality also obtains significant amounts of government grants annually to finance operating and capital expenditure.

Accordingly, it is appropriate for the municipality to adopt the going concern basis.